An Analysis of the President's Credit Budget for Fiscal Year 1984

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AN ANALYSIS OF THE PRESIDENT'S CREDIT BUDGET FOR FISCAL YEAR 1984

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The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables may not add to totals because of rounding.

PREFACE

This analysis of the President's 1984 credit budget was prepared at the request of the House and Senate Budget Committees. It presents the Congressional Budget Office's baseline credit budget projections together with CBO's reestimate of the President's credit budget proposals. The report also provides estimates of the savings in federal outlays that would result from the Administration's proposed credit budget reductions. Finally, it presents a function-by-function examination of the 1984 credit budget.

The paper was prepared by CBO's Budget Process Unit. Richard P. Emery, Jr., wrote the first three chapters. Deirdre B. Phillips and Amy R. White wrote Chapter IV. The authors gratefully acknowledge the assistance of Charles J. Richardson and CBO's cost analysts in developing baseline credit budget projections, and the helpful comments of Linwood T. Lloyd and Marvin M. Phaup of CBO and Edward Brigham of the House Committee on the Budget. Francis S. Pierce edited the manuscript, which was prepared for publication by Paula Gatens and Nancy E. Wenzel.

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SUMMARY

The President's credit budget for 1984 continues the Administration's efforts to constrain the credit activities of the federal government. The Administration argues that direct and guaranteed lending by the federal government, which grew rapidly during the second half of the 1970s, must be reduced in order to provide private borrowers greater access to capital markets. It believes that unsubsidized private borrowers frequently make more productive use of available capital funds, and thus contribute more to economic growth. Reduced federal credit activities will also mean lower deficits in the unified budget.

The Congressional Budget Office (CBO) estimates that the Administration's credit proposals would succeed in holding the annual amount of new direct and guaranteed lending for the next five years below the 1983 level. This would represent a reduction of almost $150 billion from what would otherwise occur under current polices. New direct loan obligations would remain relatively constant at approximately $38 billion over the next five years, while primary guarantee commitments would be allowed to rise gradually from $86 billion in 1984 to $96 billion in 1988.

THE CREDIT BUDGET UNDER CURRENT POLICY

Over the past ten years direct loan obligations and primary loan guarantee commitments grew from $36.8 billion in 1974 to $144.1 billion in 1983, almost a fourfold increase. 1/ The Congressional Budget Act of 1974 did not establish formal procedures for control of these credit activities. The effort to do so began in 1981, when the Administration proposed and the Congress enacted a credit budget for the first time. Since then the Congress has continued and expanded its attempts to control federal credit activities.

The First Concurrent Resolution on the Budget for fiscal year 1983 established nonbinding credit budget targets for direct loan obligations,

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1/ The 1974 credit estimates were taken from Congressional Budget Office, Loan Guarantees: Current Concerns and Alternatives for Control (January 1979).

primary loan guarantee commitments, and secondary loan guarantee commitments for 1983; it also revised targets previously set for 1982 (see Summary Table 1). The 1983 resolution also included procedural language that provided for binding credit aggregates upon enactment of the second resolution and established procedures for the enforcement of ceilings.

SUMMARY TABLE 1. COMPARISON BETWEEN THE BUDGET RESOLUTION AND THE CURRENT ESTIMATE
(By fiscal year, in billions of dollars)

	1982		1983	
	Budget Resolution	Actual	Budget Resolution	Current Estimate
New Direct Loan Obligations	56.4 a/	47.8	53.0 a/	49.5 a/
New Primary Loan Guarantee Commitments	74.9	53.7	101.9	94.6
New Secondary Loan Guarantee Commitments	69.0	36.4	68.3	68.2

a/ The 1982 and 1983 budget resolution data, and the current estimate, have been revised to exclude the repurchase of loan assets from the FFB, to be consistent with the presentation of the President's budget.

As part of the implementation of these credit budget procedures, CBO tracked Congressional action on the credit budget and reported periodically to the Budget Committees on the status of the credit budget. CBO's current estimate for the credit budget for 1983 is shown in Summary Table 1. Direct loan obligations for 1983 are $3.5 billion below the resolution targets, and primary loan guarantees are $7.3 billion below the resolution targets.

This year, for the first time, CBO has prepared baseline projections of federal credit. Like other baseline projections, these show the levels of federal credit activities that would result if current policies were to remain

in place. The limits set by appropriations actions for fiscal year 1983 are the base from which the majority of credit programs are projected. Exceptions to this rule are programs for which there are no appropriations limits (entitlements, defaults, and Federal Financing Bank transactions) and some programs for which the appropriations limits exceed the actual level of obligations or commitments that the program will generate. For both of these exceptions, CBO used the estimated program obligations or commitments in 1983 as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated in the projections in order to keep the limits constant with the projected rise in prices. Programs with 1983 base levels lower than appropriations limits were inflated in a similar fashion. The projections were limited by existing authorization ceilings on lending activity. Credit programs without appropriation limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, or Federal Financing Bank (FFB) transactions for the individual accounts. In addition to the inflation rate, the major economic assumptions that affect baseline credit projections are interest rates, housing sales, and farm prices.

THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration proposes a credit budget for fiscal year 1984 of $125.5 billion in new lending, a reduction of $16.2 billion from the proposed 1983 level. Compared with CBO's revised baseline projections, the Administration's proposal would reduce total new lending during 1984-1988 by $145.1 billion, or 18 percent. Direct loans would average about $38 billion annually throughout the 1984-1988 period, a cumulative five-year reduction of $62.9 billion, or 25 percent from the CBO baseline projection. The level of primary loan guarantees rises substantially from 1982 actual obligations to 1983 but then, under the Administration's proposal, increases only very slightly by 1988. CBO's estimate of the Administration's policy proposals for primary guarantees represents a 15 percent reduction from the baseline projection for 1984-1988. Summary Table 2 shows changes in CBO's credit budget baseline projections proposed by the President's credit budget.

Administration proposals that would result in major changes from the CBO baseline are listed below:

Export-Import Bank Guarantees. A 1984 appropriation limit of $10 billion is proposed for Export-Import Bank loan guarantees, an increase of $1 billion over the level enacted in 1983 and of $577 million over CBO's baseline estimate. The increase represents part of the Administration's efforts to meet officially supported foreign competition. For 1985-1988,

SUMMARY TABLE 2. CBO ESTIMATE OF ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986	1987	1988
CBO Baseline							
Direct loan obligations	47.8	49.5	49.1	48.2	50.0	52.4	53.7
Primary guarantee commitments	53.7	94.6	96.5	102.2	108.4	113.9	118.6
Total, new lending	101.5	144.1	145.6	150.4	158.4	166.3	172.3
Secondary guarantees	36.4	68.2	71.5	74.9	78.1	81.3	84.4
Proposed Changes							
Direct loan obligations	---	0.2	-9.7	-10.3	-12.4	-14.6	-15.7
Primary guarantee commitments	---	-2.5	-10.4	-13.3	-16.4	-19.8	-22.4
Total, new lending	---	-2.3	-20.1	-23.6	-29.0	-34.4	-38.1
Secondary guarantees	---	---	-12.8	-16.2	-19.5	-22.6	-25.7
President's Budget as Estimated by CBO							
Direct loan obligations	47.8	49.7	39.4	37.9	37.4	37.9	38.0
Primary guarantee commitments	53.7	92.0	86.1	88.9	92.0	94.1	96.2
Total, new lending	101.5	141.7	125.5	126.8	129.4	132.0	134.2
Secondary guarantees	36.4	68.2	58.6	58.6	58.6	58.6	58.6

the Administration assumes Export-Import Bank guaranteed loans would be held at the 1984 level, resulting in a reduction of $2 billion from the 1984-1988 baseline.

Rural Electrification Administration (REA). The Administration has requested 1984 limits of $575 million for direct loans and $3,360 million for loan guarantees. Since all REA transactions are financed through the FFB, the request is recorded as a $2.3 billion reduction in direct loan obligations from the baseline. The Administration assumes REA loan levels will be held

at the 1984 level through 1988. It anticipates that an increase in the availability of supplemental financing from the National Rural Utility Finance Corporation and other sources will satisfy a part of the capital requirements of the rural electric systems. The total reduction from the 1984-1988 baseline would be $14.2 billion.

Commodity Credit Corporation (CCC). The Administration proposes $8.0 billion for CCC commodity price support loans, a $2.4 billion reduction from the current services estimates. The reduction reflects implementation of the payment-in-kind (PIK) program under existing authority. Under the PIK program, farmers are offered surplus commodities held in CCC reserves in exchange for reducing their production of wheat, feed grains, rice, or cotton. The estimated savings will result from reduced commodity loans. The CBO baseline and Administration estimates are the same for this program.

Rural Housing Insurance Fund (RHIF). The Administration has proposed to terminate new loans for rural housing assistance and to establish a block grant to states for rural housing. The number of low-income rural housing units would be reduced from 90,000 in 1983 to 3,000 in 1984. The total reduction from the 1984-1988 baseline would be $19.6 billion.

SBA Business Loan and Investment Fund (BLIF). The 1984 request for Small Business Administration's business loans proposes cuts for both direct loans and guarantees and assumes a lower level of direct loans for defaulting guarantees than provided in the baseline. The Administration proposes phasing down SBA loan guarantee assistance to $1.0 billion by 1987. The reduction of SBA assistance is an integral part of the Administration's effort to restrain and reduce federal credit programs. The Administration assumes that this will increase availability of private credit for businesses. The total reduction from the 1984-1988 baseline would be $9.7 billion.

Federal Housing Administration (FHA) Mortgage Assistance. For 1984, the Administration requested $39.8 billion for FHA loan guarantees, a reduction of $8.3 billion from the CBO baseline. The Administration assumes that the growing capacity of private mortgage insurers will reduce the need for federal assistance. Its estimates assume that FHA guarantees will be held at the 1984 level through 1988. The total reduction from the 1984-1988 baseline would be $63.4 billion.

Government National Mortgage Association (GNMA) Mortgage-Backed Securities. The Administration requested a limitation of $58.6 billion for GNMA secondary guarantees in 1984, a cut of $12.8 billion from the baseline. For 1984-1988, its estimates fall $96.9 billion below the baseline.

SBA Disaster Loans. The Administration has proposed a limit of $440 million for SBA disaster loans. In the past the Congress has chosen not to limit SBA disaster loans. In light of previous Congressional action, the Budget Committees agreed to treat SBA disaster loans as an open-ended program. CBO estimates a loan level more than double that assumed by the Administration for 1984. The total reduction from the 1984-1988 baseline would be $2.8 billion.

Guaranteed Student Loans. Two significant changes are proposed for the guaranteed student loan program: needs analysis for all applicants, and an increase in the origination fee for graduate and professional student loans from 5 to 10 percent. CBO estimates that these changes will result in about a $1.0 billion decrease annually in guaranteed student loans from 1984 to 1988, resulting in a $4.9 billion reduction from the baseline.

As part of its analysis of the President's credit budget, CBO has reestimated the program to reflect CBO baseline economic assumptions and technical estimating methods. The net adjustment to direct loans is an increase of $0.3 billion in 1983, $0.6 billion in 1984, and a total of $2.9 billion from 1983 through 1988. The largest direct loan reestimate results from the reclassification of the guarantee reserve fund that was recorded by the Administration as a repurchase of loan assets. The guarantee reserve fund is used entirely to finance defaulting foreign military sales guarantees, which are not loan assets although they are held by the FFB. The reestimates to Tennessee Valley Authority (TVA) guarantees originated by the FFB and CCC commodity price support loans reflect less optimistic outyear economic assumptions. The lower estimates for the direct loans for the Veterans Administration (VA) direct loan revolving fund result from a reclassification of direct loans for defaulting guarantees to exclude property acquisition from the definition of direct loans.

The CBO estimate of the Administration's loan guarantee program resulted in decreases of $10.8 billion in 1983, $12.6 billion in 1984, and a cumulative decrease of $63.8 billion from 1983 to 1988. The largest reestimate was for VA loan guarantees. The Administration had originally estimated a 212 percent increase from the 1982 level to a 1983 loan guarantee volume of $18.6 billion, with a further increase to $19.9 billion in 1984. CBO assumed a more modest recovery for the housing industry--a 50 percent increase in loan volume in 1983 over 1982, and another 12.5 percent in 1984. CBO assumes a lower loan volume for the guaranteed student loan program, given Administration policy, than does the Administration.

IMPACT ON THE UNIFIED BUDGET

CBO estimates that the President's credit budget proposals will result in outlay savings, both on- and off-budget, of $3.1 billion in 1984 and $37.6 billion from 1984 through 1988 (see Summary Table 3). The cumulative outlay savings will be generated by a $145.2 billion cumulative reduction from baseline estimates of direct loan obligations and loan guarantee commitments. The budget deficit will be reduced only by the cuts in on-budget outlays: $0.3 billion in 1984 and $12.6 billion over the projections period. Treasury borrowing requirements--which include both on- and off-budget outlays--will be reduced by the total on- and off-budget decrease.

SUMMARY TABLE 3. IMPACT ON THE UNIFIED BUDGET OF THE PRESIDENT'S PROPOSED CHANGES IN THE CREDIT BUDGET (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
On-budget Outlay Impact	-0.3	-1.6	-1.9	-4.1	-4.7	-12.6
Off-budget Outlay Impact	-2.8	-4.0	-5.1	-6.1	-7.0	-25.0
Total	-3.1	-5.6	-7.0	-10.2	-11.7	-37.6

On-budget outlay savings result principally from proposed cuts in the rural housing insurance fund, the GNMA special assistance functions fund, and the SBA disaster loan fund. Reductions of $25.0 billion in off-budget outlays during 1984-1988 are all attributed to the FFB. Proposed cuts in the Rural Electrification Administration (REA) guarantees and SBA business and investment loan fund guarantees are estimated to save FFB outlays since the FFB originates all REA and some SBA guarantees. The largest off-budget savings are due to the legislative proposal to classify RHIF asset sales as agency debt. If the RHIF program were not being cut, off-budget outlays would be reduced but on-budget outlays increased. This is because agency debt requires borrowing authority and is not offset against on-budget outlays as are loan asset sales.

The proposed reduction of $145.2 billion in direct and guaranteed lending results in surprisingly small savings to the unified budget. While credit budget reductions can contribute to reducing the federal deficit, it does not appear that their contribution will be a large one.

CHAPTER I. INTRODUCTION TO THE CREDIT BUDGET

Federal credit activities have consequences far beyond their effects on the budget deficit. They tend to shift resources from some uses into others, or to maintain them in activities from which they would otherwise depart, or to put resources to work that would otherwise be temporarily idle.

In the absence of government intervention, credit and investment resources flow into those uses in which rates of return, adjusted for risk, are perceived to be highest. Enterprises facing low prospective rates of return receive little credit in private markets. The government may intervene to change this allocation if it believes market perceptions of profitability and risk are wrong, or if it believes the market fails to take into account significant social costs and benefits of some activities.

In its direct loan programs, the federal government utilizes its premier standing in the credit markets to borrow at a risk-free rate and lend to selected borrowers at a lower rate than the borrowers could have obtained on their own. If the government loan goes to a borrower who could not otherwise have obtained the funds, another potential borrower may be denied credit or "crowded out." The key elements in assessing the economic effects of such a reallocation of credit are to determine which borrower, the selected one or the one crowded out, would use the funds more productively and to determine whether the social benefits gained or cost avoided are worth any loss of economic efficiency.

Loan guarantees are similar in effect to direct loans. By assuming a large share of default risk, the government can move resources into uses that would otherwise be regarded as too risky to qualify for financing. A federal loan guarantee does not reduce the real risk involved in a project or activity. Instead, it shifts the burden of risk from lenders to taxpayers. Some less risky borrowers may be crowded out, and the net effect on productivity and economic growth then depends on the relative value of the supported and unsupported activities and on how much credit would have gone to the designated activity without federal intervention. Most federal financial assistance has been directed toward increasing the flow of credit into housing, agriculture, and troubled industries with low earnings.

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COMPOSITION OF THE CREDIT BUDGET

The credit budget includes both the loans the federal government makes and the loans it guarantees. A direct loan is a cash payment by a federal agency to a borrower to be repaid with interest over the life of the loan. Direct loans are almost always made at subsidized interest rates. A guaranteed loan is a contractual commitment by a federal agency to repay the principal and interest on a loan, in whole or in part, in case of default by the borrower. Guaranteed loans reduce the lenders' exposure to risk, but generally do not involve federal expenditures except when borrowers default.

The credit budget does not include the lending of privately-owned government-sponsored enterprises (e.g., the Federal National Mortgage Association, the Farm Credit System, and the Student Loan Marketing Association). These were established by the government to develop secondary markets for housing, agriculture, and student loans in an effort to improve liquidity for primary lenders by making their loans more attractive to a broader range of investors. The loans of these organizations are not guaranteed by the government, but are perceived to have the moral and political backing of the government.

Credit programs are understated in the unified budget. This is because the unified budget is presented in terms of the cash flow of the government--that is, expenditures and receipts. Direct loans are recorded in the unified budget on a "net" basis--the difference between the face amount of gross loans disbursed and the repayment of principal and interest on past loans. Programs with high activity levels may, therefore, appear negligible because of high repayment flows. Moreover, since repayments are not controllable, strict limits on net loan outlays are difficult to enforce. The unified budget also understates guaranteed loan activity. The credit advanced under guaranteed loans does not enter the budget at the time the loans are made because such loans do not involve any federal cash. The Congressional Budget Act of 1974 specifically excludes loan guarantees from the unified budget totals. (Thus, at decision time, loan guarantees are free goods as far as the unified budget accounting is concerned.) If and when borrowers default, the federal payment to the lender is recorded as an outlay. But because this budget entry is not recorded at the time the decisions are being made, default costs cannot be directly controlled.

The credit budget, on the other hand, is stated in terms of direct loan obligations and new loan guarantee commitments. Obligations for direct loans are contracts requiring that the government disburse a loan immediately or at some future time. Commitments for guaranteed loans are agreements entered into by the government to guarantee a loan when the

borrower or lender fulfills stipulated preconditions. Both concepts define the point at which the government becomes legally bound to extend credit, the point most amenable to executive and legislative control.

From the time that a direct loan is obligated or a loan guarantee committed, there may be substantial delays before the loan is disbursed or guaranteed. For example, loans to rural electric cooperatives average seven years from obligation of the loan to the disbursement of the loan, when it has its spending impact.

The effect of the credit budget on federal spending is further confused by the distinction between on- and off-budget outlays. Off-budget outlays result from the transactions of the Federal Financing Bank (FFB) and the Rural Electrification Administration (REA), both of which have been excluded from the unified budget by their authorizing statutes. This distinction between on- and off-budget is not significant to the credit budget, which includes program levels for the lending activities of all agencies. All government lending activities affect credit markets equally, whether on- or off-budget.

CREDIT BUDGET ACCOUNTING

A number of adjustments must be made to gross direct loan obligations and gross loan guarantee commitments in order to assess the impact of the credit budget on the economy. The gross figures include not only new loan transactions to the public but also intragovernmental financing transactions; the latter must be netted out to derive the credit budget totals. Table I-1 shows the accounting for the credit budget.

Gross direct loans is the sum of all direct loan obligations of the government. Two classes of transactions must be removed in order to determine new direct loan obligations to the public:

- **FFB purchases of agency loan assets.** The Farmers Home Administration (FmHA) and the REA consolidate direct loans extended to participants in their programs into certificates of beneficial ownership (CBOs) and sell these assets to the FFB. Both the original loan by the agency to the farmer or rural electric cooperative and the purchase of the loan assets by the FFB are recorded as direct loans. The loan by the FFB is subtracted from the credit budget to remove double counting.

- **Repurchases of maturing loan assets.** The original sales of REA and FmHA loan assets to the FFB are for relatively short periods,

TABLE I-1. CREDIT BUDGET ACCOUNTING (Fiscal year 1982, in billions of dollars)

Direct Loan Obligations	
New direct loans to the public	47.8
Agency repurchases of loan assets from the FFB	7.2
FFB loan asset purchases	12.6
Gross direct loan obligations	67.6
Less	
FFB loan asset purchases	-12.6
Direct loan concept used in the budget resolution and the CBO baseline	55.0
Less	
Agency repurchases of loan assets	-7.2
Direct loan concept used in the President's budget and the revised CBO baseline	47.8
Loan Guarantee Commitments	
Gross loan guarantees	118.3
Less	
Secondary guarantees	-36.4
Guarantees of direct loans	
FFB loan asset purchases	-12.6
FFB origination of agency guarantees	-13.6
GNMA direct loans for FHA and VA guarantees	-2.0
Primary Guarantees	53.7

18 months to five years, to avoid long-term commitments at high interest rates. When the CBOs mature the agencies repurchase them by making new direct loans, a financing transaction rather than an extension of credit to a new borrower. The repurchases are subtracted from gross direct loan obligations. This adjustment was introduced by the Administration in constructing its 1984 credit budget. The Administration's shift understates the total volume of direct loan obligations, but more accurately reflects new credit market activity. The 1983 budget resolution's direct loan targets included the repurchases of loan assets, as did the CBO baseline projections. 1/ Repurchases have been subtracted from CBO's revised baseline projections presented later in this chapter.

In order to identify loan guarantees to private borrowers, intragovernmental transactions must be deducted from gross loan guarantee commitments. These intragovernmental transactions include guarantees of repayment of loans previously guaranteed--secondary guarantees--and guaranteed loans that originated as direct loans.

- **Government National Mortgage Association (GNMA) secondary guarantees.** GNMA guarantees the prompt repayment of securities backed by Federal Housing Administration (FHA) and Veterans Administration (VA) guaranteed loans, which increases the liquidity of the secondary market in FHA and VA loans. This secondary guarantee does not result in new loans or increase the contingent liability of the government and is therefore subtracted from gross guarantees.

- **Agency guarantees sold to the FFB.** The Rural Electrification Administration (REA) and the Department of Defense (through foreign military sales credit programs) and other agencies guarantee loans to borrowers and then sell the loans to the FFB. The loan is then originated by the FFB as a direct loan to a private borrower and recorded in the credit budget as an FFB direct loan. The guarantees are subtracted from gross guarantee totals.

1/ Baseline Budget Projections for Fiscal Years 1984-1988, February 1983--see Chapter V.

- **Guarantees of FFB loan asset purchases.** In order for Farmers Home Administration or REA to sell an asset to the FFB, the agency must guarantee its repayment. Agency guarantees of assets sold are subtracted from gross guarantees.

- **GMNA direct loans for FHA and VA guarantees.** GNMA purchases FHA and VA guaranteed loans with the direct loans of the special assistance functions fund. The credit budget records the GNMA direct loans and subtracts out the FHA and VA guaranteed loans.

Guarantees remaining after these four adjustments are primary guarantees--that is, guaranteed loans to new borrowers.

97th CONGRESS ACTION ON CREDIT

Credit in the Budget Resolution

The First Concurrent Resolution on the Budget for fiscal year 1983 established the Congressional credit budget for 1983. The resolution set non-binding targets for direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments for 1983, and revised the previously set targets for 1982. It further allocated these targets among the budget functions. The targets were provided for the current year and the budget year, but not for the outyears. Table I-2 shows the resolution totals

The resolution went beyond previous Congressional action on the credit budget in several respects. First, Section 3 required credit authorizations enacted during the life of the resolution to be effective only to the extent provided in appropriations bills. Second, Section 9(a) applied point-of-order enforcement on second resolution ceilings for the credit budget. In the past, only aggregate non-binding targets had been set. Third, Sections 9(b) and (c) required the allocation of the credit budget to appropriation and authorizing committees by the Budget Committees and allocation of the credit budget among major programs or subcommittees by the committees of jurisdiction. Finally, Section 7 established the first budget resolution as the second resolution for fiscal year 1983 if action on a second resolution had not been completed.

The action on the credit budget described above took place in the budget and appropriations processes. The Congress also considered formal changes in the Congressional budget process to make the credit budget a permanent and integral part of it. Legislation implementing various

TABLE I-2. COMPARISON BETWEEN THE BUDGET RESOLUTION TOTALS AND THE CURRENT ESTIMATE (By fiscal year, in billions of dollars)

	1982		1983	
	Budget Resolution	Actual	Budget Resolution	Current Estimate
New Direct Loan Obligations	56.4 a/	47.8	53.0 a/	49.5 a/
New Primary Loan Guarantee Commitments	74.9	53.7	101.9	94.6
New Secondary Loan Guarantee Commitments	69.0	36.4	68.3	68.2

a/ Revised to exclude the repurchase of loan assets from the FFB, to be consistent with the presentation in the President's budget.

credit budget procedures was introduced in both the House and the Senate. The Federal Lending and Oversight Control bill, H.R. 2372, introduced by Congressmen Mineta and Bethune and cosponsored by over 200 Members, sought to amend Titles III and IV of the Congressional Budget Act to incorporate credit in the budget process. Senator Percy introduced a companion bill in the Senate, S. 265. Senator Proxmire introduced the Truth in Budgeting Act, S. 2162, a bill that required the inclusion of the transactions of the Federal Financing Bank in the budget totals. Congressman Gradison sponsored a companion bill in the House.

The Senate Budget Committee established a temporary subcommittee on federal credit chaired by Senator Gorton during the second session of the 97th Congress. The subcommittee found the budgetary treatment of federal direct loans and loan guarantees incomplete in the context of the unified budget, in that the accounting methods understate the true level of credit activity. It recommended that government lending activities be permanently integrated in the Congressional budget process. The subcommittee also recommended more frequent executive branch reporting on actual direct loan obligations and loan guarantee commitments, standardized information on defaults, the termination of the treatment of defaulted loan

guarantees as new direct loans, and the adoption of legislation that would attribute the budget authority and outlays of the Federal Financing Bank to the agency effecting the credit transaction.

CBO Current Estimate for 1983

Implementation of the credit budget procedural requirements included in the first resolution required CBO to keep score on Congressional actions on the credit budget. Upon enactment of a second resolution, the credit budget targets were to become binding ceilings. It would be CBO's responsibility to advise the Congress if those ceilings were exceeded. Throughout the second session of the 97th Congress, CBO provided the House and Senate Budget Committees with reports on the current status of the credit budget. CBO's current estimate for 1983 also served as the base for the baseline credit budget projections in this report.

Source of Credit Program Levels. The credit program levels that make up the credit budget are determined by different types of Congressional action, a majority of which are in the jurisdiction of the Appropriations Committees. The most straightforward are enacted annual appropriations limits on credit program levels. Long before the advent of the credit budget, the Appropriations Committees set limits on Farmers Home Administration (FmHA) new direct loan obligations and new loan guarantee commitments. After the credit budget was initiated, the Administration began to submit proposed appropriations limits as part of its credit budgets. As shown in Table I-3, 30 percent of the 1983 current estimate for direct loan obligations and 69 percent for loan guarantee commitments were established by appropriations limits. Loan levels for a limited number of programs--e.g., Public Law 480, the Food For Peace program--are determined directly by appropriations of budget authority. These amount to $0.8 billion of the 1983 current estimate. The appropriations limits on program levels also indirectly control the volume of FHA and REA loan assets and related guarantees and the volume of some guarantees sold to the FFB, e.g., those of REA and the foreign military sales credit program.

The levels of other credit programs are determined both by program characteristics established in authorizing statutes and by program levels set in appropriations bills. The volume of direct loans for defaulting guarantees for the foreign military sales credit program, for example, is influenced by appropriations limits on loan volume and by authorizations that specify eligible borrowers.

Finally, there are a limited number of credit programs where the loan levels are determined by the program authorization. Veterans Adminis-

TABLE I-3. SOURCES OF CREDIT PROGRAM LEVELS (In billions of dollars)

	1982 Actual	1983 Budget Resolution	1983 Current Estimate
Direct Loan Obligations			
Annual appropriations limits	23.1	21.2	14.9
Appropriation of budget authority	0.8	0.8	0.8
Repurchase of maturing loan assets a/	(7.2)	(6.7)	(6.7)
Sale of agency loan assets to the FFB a/	(12.6)	(14.1)	(11.5)
Sale of agency-guaranteed securities to the FFB	15.6	15.8	15.4
Defaulting loan guarantees	2.3	2.7	2.5
Unrestricted program authorizations	6.0	12.5	15.9
Gross direct loan obligations	47.8	53.0	49.5
Loan Guarantee Commitments			
Annual appropriations limits	74.4	132.7	133.7
Guarantees of agency loan asset sales to FFB	12.6	14.1	11.5
Unrestricted program authorizations	31.3	55.2	44.5
Gross loan guarantee commitments	118.3	202.0	189.7
Adjustments to exclude intra-governmental transactions	-64.6	-100.1	-95.1
Primary loan guarantees	53.7	101.9	94.6

a/ Amounts in parentheses are intragovernmental transactions not included in the credit budget totals.

tration loan guarantees are available to any qualified veteran, and hence loan volume is determined by demand.

1983 Current Estimate Compared to Budget Resolution. CBO's current estimate for new direct loan obligations in 1983 is $49.5 billion, $3.5 billion below the budget resolution target. The difference is due to the $1.4 billion reduction in the Commodity Credit Corporation because of the lower-than-assumed appropriation for short- and medium-term export loans; a $2.5 billion reduction in the limitation assumed for the Special Assistance Functions Fund; and a $1.0 billion reduction in the estimate of low-income public housing direct loans financed through the FFB. The current estimate for new loan guarantees is $94.6 billion, $7.3 billion below the budget resolution target. The difference is due to lower enacted appropriations levels than assumed in the resolution for foreign military sales and for the Rural Electrification Administration, and a reduction of $12.9 billion in the amount assumed for veterans' loan guarantees. The limit for FHA loan guarantees was $5.9 billion higher than the amount assumed in the resolution target. The estimate for secondary guarantees has not changed.

1983 Current Estimate Compared to 1982 Actual. Both the Administration and CBO have assumed substantial growth in the credit budget from 1982 to 1983. Table I-4 shows the major changes between 1982 actuals and CBO's current estimate for 1983. Changes in direct loans between 1982 and 1983 were not directly related to the recession. Administration proposals to increase foreign military sales credit and to decrease the Government National Mortgage Association (GNMA) special assistance functions fund were enacted by the Congress. The increase in Tennessee Valley Authority (TVA) borrowing from the Federal Financing Bank (FFB) for the Seven States Energy Corporation is due to the accumulating interest from refinancing outstanding loans. The increases for loan guarantees, in contrast, can mostly be attributed to the effect of the recession on 1982 loan levels and to high interest rates. Federal Housing Administration (FHA) mortgage assistance, GNMA mortgage-backed securities, and Veterans Administration (VA) loan guarantee fund guarantee levels were all low in 1982 as a result of the slump in the housing markets. Similarly, the international recession reduced demand for Export-Import Bank guarantees and for Commodity Credit Corporation (CCC) commodity export loans. The revival in the economy is expected to increase demand for federal loan guarantees in 1983.

Limits on Obligations and Commitments. The credit budget procedures implemented over the past four years have emphasized appropriations limits as the effective control for the credit budget. A review of the actual direct loan obligations and loan guarantee commitments for 1981 and 1982

TABLE I-4. MAJOR CHANGES IN THE CREDIT BUDGET BETWEEN 1982 AND 1983 (In millions of dollars)

Major Programs	1982 Actual	1983 Current Estimate	Change
Direct Loan Obligations			
Foreign Military Sales Credit	800	1,175	+375
FFB Foreign Military Sales	3,084	3,638	+554
FFB Tennessee Valley Authority	4,513	5,641	+1,128
GNMA Special Assistance Function Fund	1,980	500	-1,480
SBA Disaster Loan Fund	237	603	+366
Other	37,158	37,946	+788
Total Direct Loan Obligations	47,722	49,503	+1,731
Loan Guarantee Commitments			
Export-Import Bank	5,832	9,000	+3,168
CCC Export Guarantees	1,551	4,800	+3,249
SBA Business Loan Insurance Fund	2,018	3,300	+1,281
FHA Mortgage Assistance	18,576	45,900	+27,324
GNMA Mortgage-Backed Securities a/	(36,382)	(68,250)	(+31,868)
Economic Development Revolving Fund	14	170	+156
VA Loan Guaranty Revolving Fund	5,983	8,000	+2,017
Other	19,753	23,400	+3,647
Primary Guarantees	53,728	94,570	+40,842

a/ Amounts in parentheses are intragovernmental transactions not included in the credit budget totals.

shows that for a substantial number of programs there were large gaps between program level ceilings or limits and the obligations and commitments. To some extent these program shortfalls were due to the recession. In other cases the limits have been set too high to exert any real control over program levels (see Table I-5).

CBO's current estimate for 1983 assumes that a number of programs will not reach the levels established by the limits.

BASELINE CREDIT PROJECTIONS

This year, for the first time, both CBO and the Administration have provided credit projections for 1985-1988. The Administration's projections reflect policy changes proposed by the President for 1983 and 1984 in his January budget. The CBO credit budget baseline, like CBO's unified and off-budget baseline projections, shows the level of federal activity that would result if current policies were to remain in place. The limits set by the House and Senate Appropriations Committees for fiscal year 1983 are the base from which the majority of credit programs are projected. Exceptions to this rule exist for programs that have no appropriations limits (entitlements, defaults, and FFB transactions) and some programs for which the appropriations limits are above the actual level of obligations or commitments that the program will generate. For both of these exceptions, CBO's estimates of program obligations or commitments were used as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated in the projections to keep the limits constant with the projected rise in prices. Programs with 1983 base levels lower than appropriations limits were inflated in a similar fashion. The projections were limited in some cases by existing authorization ceilings on lending activity, however. Credit programs without appropriations limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, or FFB transactions for the individual accounts. In addition to the inflation rate, the major economic assumptions that affect baseline credit projections are interest rates, housing sales, and farm prices.

The baseline credit budget projections used in this report have been revised from those published in CBO's Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983). The major revision is the adjustment to direct loans to subtract repurchase of loan assets from gross direct loans. Adjustments have also been made to baseline estimates for credit program levels that are affected by administrative action to reflect administrative

TABLE I-5. LIMITS ON NEW DIRECT LOAN OBLIGATIONS AND NEW LOAN GUARANTEE COMMITMENTS COMPARED TO ACTUAL OBLIGATIONS OR COMMITMENTS (In millions of dollars)

Program	1981 Limit	1981 Actual Obligation or Commitment	1981 Unused	1982 Limit	1982 Actual Obligation or Commitment	1982 Unused
Direct Loan Obligations a/						
ACIF	1,174	1,692	82	2,129	1,865	264
RHIF	3,950	3,485	465	3,725	3,180	545
REA	1,425	1,000	325	1,425	1,100	326
RTB	220	168	60	220	185	35
CCC	2,200	[illegible]	2,178	2,200	46	2,154
Eximbank	5,461	5,[illegible]1	30	4,400	3,516	884
FHA	14	14	---	76	---	76
Loan Guarantee Commitments b/						
RDIF	852	743	109	611	139	472
REA	---	---	---	6,400	5,112	1,288
SBA, Pollution Control	---	---	---	250	50	200
SBA, BLIF	---	---	---	3,300	2,019	1,281
Eximbank	8,059	7,416	643	9,220	5,832	3,388
FHA	34,155	23,635	10,520	40,000	18,576	21,424
GNMA-MBS	64,000	42,150	21,850	68,250	36,382	31,868

a/ Agriculture Credit Insurance Fund (ACIF), Rural Housing Insurance Fund (RHIF), Rural Electrification Administration (REA), Rural Telephone Bank (RTB), Commodity Credit Corporation (CCC), Export-Import Bank (Eximbank), Federal Housing Administration (FHA).

b/ Rural Development Insurance Fund (RDIF), Rural Electrification Administration (REA), Small Business Administration (SBA) Pollution Control, SBA Business Loan and Investment Fund (BLIF), Export-Import Bank (Eximbank), Federal Housing Administration (FHA), Government National Mortgage Association Mortgage-Backed Securities (GNMA-MBS).

changes announced in the Budget. Table I-6 shows the reestimates of the baseline projections.

CBO's baseline projections show net direct loan obligations and primary loan guarantee commitments rising from a total of $144.1 billion in 1983 to $172.3 billion in 1988, for an average annual increase of 4 percent. The projected increase is mostly for primary loan guarantee commitments, which rise from $94.6 billion in 1983 to $118.6 billion in 1988. Net direct loan obligations remain at about $50 billion annually throughout the period.

While projected federal credit activity rises in absolute terms, it declines as a percentage of GNP between 1983 and 1988. GNP is projected to grow 50 percent from 1983 to 1988 while credit activity is projected to rise only 20 percent. This trend is in contrast to the period 1973 to 1982, when GNP doubled and credit activity tripled. Figure 1 shows credit as a percentage of GNP. Net direct loan obligations fall from 1.6 percent of GNP in 1983 to 1.1 percent in 1986 through 1988. The decline for primary loan guarantees is more gradual, falling from 3.0 percent of GNP in 1983 to 2.5 percent in 1988.

Figure 1.
Federal Credit as a Percentage of GNP

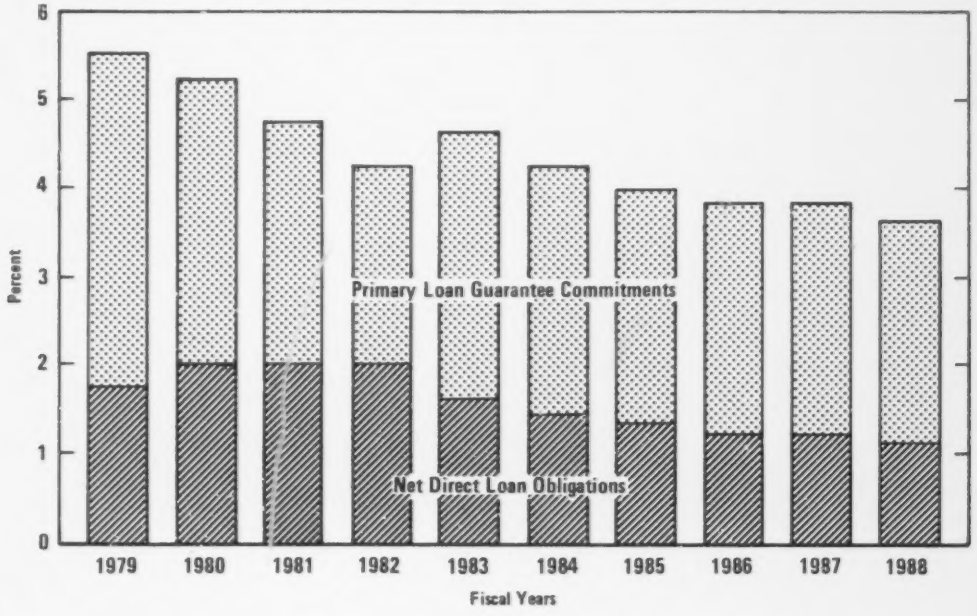

TABLE I-6. BASELINE CREDIT PROJECTIONS (By fiscal year, in billions of dollars)

	1983 Base	Projections 1984	1985	1986	1987	1988
New Direct Loan Obligations						
Baseline	49.4	49.3	48.8	47.4	50.3	52.2
Adjustments						
Repurchase of loan assets	-6.7	-10.3	-7.0	-1.3	-0.5	-4.6
Other	6.8	10.1	6.4	3.9	2.6	6.1
Revised baseline	49.5	49.1	48.2	50.0	52.4	53.7
Primary Loan Guarantees						
Baseline	86.5	89.9	95.0	100.7	106.1	111.5
Adjustments	8.1	6.6	7.3	7.7	7.8	7.1
Revised Baseline	94.6	96.5	102.3	108.4	113.9	118.6
Total	144.1	145.6	150.5	158.4	166.3	172.3
Secondary Guarantees	68.2	71.5	74.9	78.1	81.3	84.4
Revised Baseline as a Percent of GNP						
New direct loan obligations	1.6	1.4	1.3	1.2	1.2	1.1
Primary loan guarantee commitments	3.0	2.8	2.7	2.6	2.6	2.5
Secondary guarantees	2.1	2.0	2.0	1.9	1.8	1.8

CHAPTER II. THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration's credit budget proposal for fiscal year 1984 continues the efforts initiated in the 1982 budget to reduce federal credit activities. It would finance $125.5 billion in new lending, a reduction of $15.8 billion from the proposed 1983 level. Most credit programs would be held constant or reduced. The principal exceptions are federal mortgage assistance programs, where higher loan levels are assumed in 1983 due to the expected revival of the housing industry, and the Export-Import Bank and foreign military credit sales in 1983 and 1984. Over the next five years, new lending would increase only slightly, reaching $134.2 billion by 1988.

Compared to CBO's revised baseline projections presented in Chapter I, the Administration's credit budget would reduce total new lending during 1984-1988 by $145.2 billion or 18 percent. Direct loans would average about $38 billion annually throughout the five-year period. This would be $62.9 billion below the CBO baseline projections and would represent a reduction of 25 percent. Primary loan guarantees would rise substantially from 1982 actual obligations to 1983, but then increase only slightly by 1988. This would represent a 15 percent reduction from the baseline projection for 1984-1988. Table II-1 shows changes to the CBO credit budget baseline projections proposed by the President's credit budget.

In 1983 and 1984, the Administration's proposals would result in cuts of $2.8 billion and $20.1 billion respectively from the revised CBO baseline. Direct loan obligations would fall slightly in 1983, but be cut by 20 percent in 1984 from a baseline estimate of $49.1 billion to $39.4 billion. For primary guarantees, the Administration proposes cuts of $2.7 billion in 1983 and $10.4 billion in 1984. Most federal lending programs would be held at 1984 levels through 1988.

MAJOR CHANGES IN 1984

The Administration's proposals for 1984 call for increases in lending for international affairs and reductions in most other areas. Table II-2 shows the major changes made in the CBO baseline by the President's credit budget. The Administration held its estimates for most programs in 1985-1988 at 1984 levels, in contrast to the CBO baseline estimates which are inflated to maintain constant program levels.

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TABLE II-1. CBO ESTIMATE OF ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986	1987	1988
CBO Baseline							
Direct loan obligations	47.8	49.5	49.1	48.2	50.0	52.4	53.7
Primary guarantee commitments	53.7	94.6	96.5	102.3	108.4	113.9	118.6
Total, new lending	101.5	144.1	145.6	150.5	158.4	166.3	172.3
Secondary guarantees	36.4	68.2	71.5	74.9	78.1	81.3	84.4
Proposed Changes							
Direct loan obligations	---	-0.1	-9.7	-10.3	-12.6	-14.6	-15.7
Primary guarantee commitments	---	-2.7	-10.4	-13.3	-16.4	-19.8	-22.4
Total, new lending	---	-2.8	-20.1	-23.6	-29.0	-34.4	-38.1
Secondary guarantees	---	---	-12.8	-16.2	-19.5	-22.6	-25.7
President's Budget as Estimated by CBO							
Direct loan obligations	47.8	49.4	39.4	37.9	37.4	37.9	38.0
Primary guarantee commitments	53.7	91.9	86.1	88.9	92.0	94.1	96.2
Total, new lending	101.5	141.3	125.5	126.8	129.4	132.0	134.2
Secondary guarantees	36.4	68.2	58.6	58.6	58.6	58.6	58.6

Programs That Would Be Increased

Increased credit program levels have been proposed for the Export-Import Bank and the foreign military credit sales program. The Administration has proposed an appropriations limit of $10 billion for the Export-Import Bank loan guarantees, an increase of $1 billion over the level enacted in 1983 and of $627 million over CBO's baseline estimate. The increase represents part of the Administration's efforts to meet officially supported foreign competition. For 1985-1988, the Administration assumes

TABLE II-2. MAJOR CHANGES IN THE CBO BASELINE MADE BY THE PRESIDENT'S CREDIT BUDGET (By fiscal year, in billions of dollars)

Major Programs	1983	1984	1985	1986	1987	1988
Direct Loan Obligations						
CBO baseline	49.5	49.1	48.2	50.0	52.4	53.7
Proposed changes						
Foreign military credit sales a/	0.5	0.4	0.2	-0.1	-0.3	-0.5
Export-Import Bank	---	-0.8	-1.0	-1.2	-1.4	-1.6
Rural housing insurance fund	*	-3.2	-3.0	-4.0	-4.6	-4.8
Rural Electrification Administration a/	-0.1	-2.3	-2.6	-2.9	-3.1	-3.4
Commodity Credit Corporation	---	-0.5	-0.5	-0.6	-0.6	-0.6
GNMA special assistance functions fund	---	-0.5	-0.6	-0.6	-0.6	-0.6
Agriculture credit insurance fund	-0.3	-0.7	-0.8	-1.1	-1.3	-1.4
SBA disaster loan fund	-0.2	-0.7	-0.5	-0.5	-0.5	-0.6
Other	---	-1.4	-1.5	-1.5	-2.2	-2.2
Total change	-0.1	-9.7	-10.3	-12.6	-14.6	-15.7
President's budget as estimated by CBO	49.4	39.4	37.9	37.4	37.9	38.0

Export-Import Bank guaranteed loans would be held at the 1984 level, a $2.0 billion reduction from the baseline estimate for the period. The Administration has requested a supplemental of $525 million for foreign military credit sales loan guarantees in 1983, and has requested the supplemented amount for 1984. The proposed supplemental would provide $100 million to assist in

Table II-2. (Continued)

Major Programs	1983	1984	1985	1986	1987	1988
Primary Loan Guarantees						
CBO baseline	94.6	96.5	102.3	108.4	113.9	118.6
Proposed changes						
Export-Import Bank	-1.0	0.6	0.1	-0.3	-0.7	-1.1
Rural Electrification Administration b/	---	(-1.6)	(-2.0)	(-2.5)	(-2.9)	(-3.2)
SBA business loan and investment fund	-0.6	-0.8	-1.2	-2.0	-2.8	-2.9
FHA mortgage assistance	---	-8.3	-10.6	-12.8	-14.9	-16.9
GNMA mortgage-backed securities b/	---	(-12.8)	(-16.2)	(-19.5)	(-22.6)	(-25.7)
Guaranteed student loans	-0.5	-1.0	-1.0	-1.0	-1.0	-0.9
Other	0.6	-0.9	-0.7	-0.3	-0.4	-0.6
Total change	-2.7	-10.4	-13.4	-16.4	-19.8	-22.4
President's budget as estimated by CBO	91.9	86.1	88.9	92.0	94.1	96.2

* Less than $50 million.

a/ Includes both agency direct loans and FFB direct loans issued for agency guarantees.

b/ Amounts in brackets involve intragovernmental transactions and are not included in the totals.

the rebuilding of the Lebanese armed forces and $425 million to avoid adverse effects of military assistance reductions to various countries. For 1985-1988, the Administration assumes the 1984 level. The total reduction from the baseline for foreign military sales credits through 1988 would be $0.3 billion. All foreign military sales credit guarantees are being financed through the Federal Financing Bank (FFB). The 1984 request appears as an increase of $397 million in FFB direct loan obligations.

Programs That Would Be Decreased

Credit budget decreases have been proposed for all other budget functions. The major changes from CBO's baseline are outlined below:

Rural Electrification Administration (REA). The Administration has requested 1984 limits of $575 million for direct loans and $3,360 million for loan guarantees. Since all REA transactions are financed through the FFB, the request is recorded as a $2.3 billion reduction in direct loan obligations from the baseline. The Administration assumes REA loan levels will be held at the 1984 level through 1988. The savings from the baseline in 1984-1988 for REA would be $14.3 billion. The Administration anticipates that an increase in the availability of supplemental financing from the National Rural Utility Finance Corporation and other sources will satisfy a part of the capital requirements of the rural electric systems.

Commodity Credit Corporation (CCC). The Administration proposes $8.0 billion for CCC commodity price-support loans, a $2.4 billion reduction from the current services estimates. The reduction reflects implementation of the payment-in-kind (PIK) program under existing authority. Under PIK, the farmers are offered surplus commodities held in CCC reserves in exchange for reducing production of wheat, feed grains, rice, or cotton. The estimated savings would result from reduced commodity loans.

Rural Housing Insurance Fund (RHIF). The Administration has proposed to terminate new loans for rural housing assistance and to establish a block grant to states for rural housing. The number of low-income rural housing units would be reduced from 90,000 in 1983 to 3,000 in 1984. The proposal would reduce direct loans by $19.6 billion from the baseline in 1984-1988.

SBA Business Loan and Investment Fund (BLIF). The 1984 request for SBA business loans proposes cuts for both direct loans and guarantees and assumes a lower level of direct loans for defaulting guarantees than provided in the baseline. The Administration proposes phasing down SBA loan guarantee assistance to $1.0 billion by 1988, $9.7 billion below baseline estimates for 1984-1988. The reduction of SBA assistance is an integral part of the Administration's effort to restrain and reduce federal credit programs. The Administration assumes that this will increase the availability of private credit for business.

Federal Housing Administration (FHA) Mortgage Assistance. For 1984, the Administration requested $39.8 billion for FHA loan guarantees, a reduction of $8.3 billion from the CBO baseline. The Administration assumes that the growing capacity of private mortgage insurers will reduce

the need for federal assistance. Its estimates assume that FHA guarantees will be held at the 1984 level through 1988, a total of $63.5 billion below the baseline for this period.

Government National Mortgage Association (GNMA) Mortgage-Backed Securities. The Administration requested a limitation of $58.6 billion for GNMA secondary guarantees in 1984, a cut of $12.8 billion from the baseline. For 1984-1988, its estimates fall $96.8 billion below the baseline.

Small Business Administration (SBA) Disaster Loans. The Administration has proposed a limit of $440 million for SBA disaster loans. In the past the Congress has chosen not to limit SBA disaster loans. In light of previous Congressional action, the Budget Committees agreed to treat SBA disaster loans as an open-ended program. CBO estimates a loan level more than double that assumed by the Administration for 1984. For 1984-1988, the Administration estimate is $2.8 billion below the baseline.

Guaranteed Student Loans. The Administration proposed two significant changes from current law for the guaranteed student loan program: needs analysis for all applicants and an increase in the origination fee for graduate and professional student loans from 5 to 10 percent. CBO estimates that these changes will result in about a $1.0 billion annual decrease in guaranteed student loans in 1984-1988.

Other Programs. The Administration has assumed no further funding for CCC short- and intermediate-term direct export loans and for the GNMA special assistance functions fund tandem plan program. The CCC direct export loans were limited at $2.2 billion in 1981 and 1982, but were not disbursed. In 1983, the Agriculture and Related Agencies Appropriations bill set a minimum for the program of $500 million. Both programs were funded at the level of $500 million in 1983 and were included in CBO's base at that level. For the projections period, the baseline is $5.7 billion above the Administration estimate for these two programs.

In addition to the proposed reduction in rural housing insurance (RHIF) funding, the Administration has proposed to change the budgetary treatment of RHIF loan asset sales to the FFB. This would require loan assets to be treated as borrowing by the rural housing insurance fund. The current rural housing authorization requires that these transactions be recorded as the sale of an asset generating collections that offset outlays. Its outstanding assets would be restructured as agency debt. The impact of the change would be to convert the financing of repurchase of loan assets from an offsetting collection to agency borrowing. The total FFB portfolio of $26.9 billion in RHIF loan assets would be converted to agency debt. Ultimately, off-budget outlays of the FFB would be reduced, as shown in the budget

impact estimate in the next section, and the budget outlays of RHIF would increase. The proposed change in financing would not affect loan levels since it would change intragovernmental transactions that are netted from total lending.

Table II-3 compares the CBO baseline for the rural housing insurance fund with the Administration's request. The changes in new rural housing loans and purchases of existing loans from the public, resulting from the proposed rural housing block grant, reduce baseline credit budget estimates by $19.6 billion from 1984 to 1988. The legislative change in RHIF loan assets would reduce RHIF sales by $13.8 billion during the projections period, but since loan asset sales are netted from credit budget totals it would not affect the credit budget.

IMPACT OF THE PRESIDENT'S PROPOSED CREDIT BUDGET ON FEDERAL OUTLAYS

CBO estimates that the President's credit budget proposals would result in on- and off-budget outlay savings of $3.1 billion in 1984 and $37.6 billion from 1984 through 1988. The 1984-1988 savings would be generated by a $145.2 billion cumulative reduction from baseline estimates of direct loan obligations and loan guarantee commitments. The deficit would be reduced only by the cuts in on-budget outlays: $0.3 billion in 1984 and $12.6 billion over the projections period. The Treasury borrowing requirements--which consist of on- and off-budget outlays--would be reduced by the total on- and off-budget decrease. Table II-4 shows CBO's estimate of the outlay impact of the President's credit budget proposals by major program.

On-budget outlay savings result principally from proposed cuts in the rural housing insurance fund, GNMA special assistance functions fund, and the SBA disaster loan fund. No savings have been estimated for the elimination of CCC's direct export loans. No budget authority or outlays were included in the baseline for this program. The $4.9 billion lower loan guarantee level for the guaranteed student loan program is estimated to result in savings of $0.7 billion over the projections period. Both of the other loan guarantee programs that affect on-budget outlays actually make money for the government: reductions in FHA mortgage assistance and GNMA mortgage-backed securities have an impact equivalent to adding to outlays by decreasing receipts.

Reductions of $25.0 billion in off-budget outlays during 1984-1988 are all attributed to the FFB. Proposed cuts in the Rural Electrification Administration (REA) guarantees and SBA business loan and investment fund guarantees are estimated to save FFB outlays since the FFB originates all

TABLE II-3. COMPARISON BETWEEN THE CBO BASELINE AND THE ADMINISTRATION'S REQUEST FOR THE RURAL HOUSING INSURANCE FUND (By fiscal year, in billions of dollars)

Major Programs	1983	1984	1985	1986	1987	1988
CBO baseline						
New rural housing loans	3.3	3.5	3.6	3.8	3.9	4.1
Purchase of existing loans from the public	0.1	*	0.1	0.6	1.0	1.1
Repurchase of loan assets from FFB a/	(2.7)	(3.9)	(2.2)	(0.1)	(0.2)	(0.2)
Sale of loan assets to the FFB a/	(5.1)	(6.3)	(4.8)	(2.7)	(2.9)	(3.0)
Total, new direct loan obligations	3.4	3.5	3.7	4.3	5.0	5.2
Proposed Changes						
New rural housing loans	---	-3.2	-3.3	-3.5	-3.6	-3.8
Purchase of existing loans from the public	---	*	0.3	-0.5	-1.0	-1.0
Repurchase of loan assets from the FFB a/	---	(-3.9)	(-2.2)	(-0.1)	(-0.2)	(-0.2
Sale of loan assets to the FFB a/	---	(-2.1)	(-3.1)	(-2.7)	(-2.9)	(-3.0)
Agency debt a/	---	(4.2)	(1.8)	---	---	---
Total change	---	-3.2	-3.0	-3.9	-4.6	-4.8
President's Budget as Estimated by CBO						
New rural housing loans	3.3	0.3	0.3	0.3	0.3	0.3
Purchase of existing loans from the public	0.1	*	0.4	0.1	0.1	0.2
Repurchase of loan assets from FFB a/	(2.7)	---	---	---	---	---
Sale of loan assets to the FFB a/	(5.1)	(4.3)	(1.8)	---	---	---
Agency debt a/	---	(4.2)	(1.8)	---	---	---
Total, new direct loan obligations	3.4	0.3	0.7	0.5	0.5	0.5

* Less than $50 million.

a/ Amounts shown in brackets are intragovernmental transactions and are subtracted from gross direct loan obligations in calculating new direct loans to the public.

TABLE II-4. CBO ESTIMATE OF THE OUTLAY IMPACT OF THE PRESIDENT'S PROPOSED CHANGES IN THE CREDIT BUDGET (In billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Changes in On-Budget Outlays						
Export-Import Bank	*	-0.3	-0.5	-0.7	-0.8	-2.3
Foreign military sales credit	-0.1	-0.3	-0.3	-0.4	-0.4	-1.5
Agriculture Credit Insurance Fund	-0.2	-0.1	-0.1	-0.1	-0.2	-0.7
Commodity Credit Corporation	---	---	---	---	---	---
Rural Housing Insurance Fund	0.3	-0.6	-0.7	-1.2	-1.5	-3.7
GNMA mortgage-backed securities	*	*	*	*	*	*
GNMA Special Assistance Functions Fund	---	*	-0.1	-1.5	-1.7	-3.3
FHA mortgage assistance	---	0.3	0.4	0.4	0.5	1.6
SBA disaster loan fund	-0.3	-0.5	-0.4	-0.4	-0.4	-2.0
Guaranteed student loans	*	-0.1	-0.2	-0.2	-0.2	-0.7
Other a/	---	---	---	---	---	---
On-budget outlay impact of President's credit budget	-0.3	-1.6	-1.9	-4.1	-4.7	-12.6
Changes in Off-Budget Outlays						
Foreign military sales credit	0.4	0.3	0.2	0.1	-0.1	0.9
Rural Electrification Admin.	-0.1	-0.9	-1.5	-2.1	-2.5	-7.1
Agricultural credit insurance fund	-0.6	-0.8	-1.1	-1.3	-1.5	-5.3
Rural housing insurance fund	-2.4	-2.5	-2.6	-2.7	-2.8	-13.0
SBA business loan investment fund	-0.1	-0.1	-0.2	-0.2	-0.2	-0.8
Off-budget outlay impact of President's credit budget	-2.8	-4.0	-5.2	-6.2	-7.1	-25.2
Combined On- and Off-Budget Outlay Impact	-3.1	-5.6	-7.0	-10.2	-11.7	-37.6

* Less than $50 million.

a/ No estimate was developed for the "Other" credit budget changes which are spread among a large number of programs.

REA and some SBA guarantees. The reductions shown for the agriculture credit insurance fund and the foreign military sales credit program result from the Administration's assumed freeze from 1984 through 1988. The largest off-budget savings are due to the legislative proposal to classify RHIF asset sales as agency debt. If the RHIF program was not to be cut, off-budget outlays would be reduced but on-budget outlays increased. This is because agency debt requires borrowing authority and is not offset against on-budget outlays as are loan asset sales.

CBO REESTIMATES OF ADMINISTRATION CREDIT BUDGET PROPOSALS

As part of its analysis of the President's credit budget, CBO has reestimated the Administration's budget program to reflect CBO baseline economic assumptions and technical estimating methods. The effect of these reestimates on the credit budget is shown in Table II-5. The net effect of reestimates is to increase the President's credit budget for direct loan obligations but to decrease the primary guarantee estimates.

The net adjustment to direct loans is an increase of $0.3 billion in 1983, $0.6 billion in 1984, and a total increase of $3.1 billion from 1983 through 1988. The largest direct loan reestimate results from the reclassification of the guarantee reserve fund, which was recorded by the Administration as a repurchase of loan assets. The guarantee reserve fund is used entirely to finance defaulting foreign military sales guarantees, which are not loan assets although they are held by the FFB. The reestimates to TVA guarantees originated by the FFB and CCC commodity price support loans reflect less optimistic outyear economic assumptions. The lower estimate for direct loans for the VA direct loan revolving fund is due to a reclassification of direct loans for defaulting guarantees to exclude property acquisition from the definition of direct loans.

The CBO estimate of the Administration's loan guarantee program resulted in decreases of $10.8 billion in 1983, $12.6 billion in 1984, and a cumulative decrease of $63.8 billion from 1983 to 1988. The largest reestimate was for VA loan guarantees. The Administration had originally estimated a 212 percent increase from the 1982 level to a 1983 loan guarantee volume of $18.6 billion, with a further increase to $19.9 billion in 1984. CBO also assumed a more modest recovery for the housing industry; its 1983 estimate is 50 percent higher than the 1982 actuals, and its 1984 estimate increases by another 12.5 percent. CBO assumes a lower loan volume for the guaranteed student loan program, given Administration policy, than does the Administration.

TABLE II-5. CBO REESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal years, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Direct Loan Obligations						
President's Budget	49.1	38.8	37.4	37.4	37.1	37.4
CBO reestimates						
Guarantee reserve fund-repurchase of loan assets	0.3	0.3	0.3	0.4	0.4	0.5
TVA	0.2	0.1	*	-0.3	-0.7	-1.1
CCC	---	---	---	---	1.0	1.1
SBA business loan and investment fund	0.1	0.3	0.2	0.1	0.1	0.1
SBA disaster loan fund	---	---	0.2	0.2	0.3	0.3
Guaranteed student loan fund	---	---	*	*	*	-0.1
VA loan guaranty revolving fund	0.1	-0.1	-0.3	-0.2	-0.1	*
Other	-0.4	---	0.1	-0.1	-0.3	-0.2
Net reestimates	0.3	0.6	0.5	0.1	0.7	0.6
President's budget as estimated by CBO	49.4	39.4	37.9	37.4	37.9	38.0
Primary Loan Guarantee Commitments						
President's Budget	102.7	98.7	100.9	103.1	103.4	104.2
CBO reestimates						
Guaranteed student loan fund	-0.8	-1.8	-2.2	-2.7	-3.0	-3.4
VA loan guarantee revolving fund	-10.6	-10.9	-9.9	-8.5	-6.3	-4.7
Other	0.6	0.1	0.1	0.1	---	0.1
Net reestimates	-10.8	-12.6	-12.0	-11.1	-9.3	-8.0
President's budget as estimated by CBO	91.9	86.1	88.9	92.0	94.1	96.2

* Less than $50 million.

CHAPTER III. THE BUDGET IMPACT OF FEDERAL CREDIT ACTIVITIES

The budgetary treatment of federal credit activities has historically led to misunderstandings about the long-term cost of credit programs, about the incidence of defaults, and generally about the impact of the credit budget on federal spending. Two particular misconceptions tend to arise. On the one hand, federal credit is sometimes seen as a free good that does not cost the government anything. On the other hand, opponents of credit programs sometimes argue that they are bound to usurp capital from more productive uses. Neither perception is necessarily accurate.

This chapter reviews several characteristics of federal credit activity in an effort to place its budget impact in context. The fact that many credit activities involve long-term subsidies to borrowers is explored through a discussion of the discounted present value of such subsidies. The problem of defaults in federal credit programs is reviewed. Next, net lending is considered in terms of its impact on outlays and on capital markets. Finally, the role of the Federal Financing Bank (FFB) in distorting the budget impact of credit activities is examined. Data have been extracted from the President's Budget to support this discussion, rather than estimated independently by CBO.

THE INTEREST SUBSIDIES IN FEDERAL CREDIT

The federal government extends direct loans to selected borrowers at interest rates and for terms that are more favorable than would be provided by private credit markets. The difference between the market rate and the rate charged to the borrower represents a subsidy to the borrower. The difference between the Treasury's borrowing cost and the rate charged to the borrower determines the cost of the subsidy to the government. The two estimates of subsidy, one from the borrower's viewpoint, the other from the lender's, can be very different in some loan programs.

The annual value of interest subsidies to borrowers equals the subsidy expressed as a percent times the volume of outstanding loans. To measure the full cost of a new loan extended or the savings that would be generated from reducing loan programs, it is necessary to specify the annual interest subsidies for the life of the loan and to convert this stream to its discounted present value.

Table III-1 presents the discounted present values for selected federal credit assistance programs for 1982. Present-value analysis is more useful as a tool for examining the cost of a specific program than it is for estimating the value of total federal subsidies, since the calculation of present value requires a number of sensitive assumptions that are subject to considerable change from year to year--e.g., market interest rates, Treasury borrowing rates, and the discount rate. For example, if a credit program offers loans at 3 percent interest for a period of 33 years, when the private rate is 13 percent (OMB's estimates for rural housing in 1982), each $100 loan represent the equivalent of a $64 grant, the present value of the interest subsidy. The annual subsidy for the same $100 loan would be approximately $8. Present-value analysis thus presents an estimate of the long-term costs of the program.

TABLE III-1. INTEREST SUBSIDY VALUES FOR SELECTED FEDERAL CREDIT PROGRAMS, FISCAL YEAR 1982

	Average Terms		Annual Market Rate (percent)	Obligations (millions of dollars)	Present Value of Subsidy (millions of dollars)
	Interest Rate (percent)	Years to Maturity			
Economic Support Fund	3.0	40.0	12.5	366	241
Agriculture Credit Insurance Fund	9.2	10.0	14.0	4,199	744
Rural Housing Insurance Fund	3.0	33.0	13.0	3,454	2,203
Rural Electric and Telephone	4.9	35.0	14.5	1,099	649
FFB, Loans to the Public	10.3	10.0	14.6	30,082	4,750

SOURCE: Budget of the United States Government, Fiscal Year 1984, Special Analysis F, Federal Credit Programs.

THE EXTENT OF DEFAULTS IN FEDERAL CREDIT ACTIVITIES

The current federal budget presentation makes it difficult to draw conclusions as to the extent of defaults in federal credit activities. Default levels are, however, a significant concern, particulary in loan guarantee programs where they are the principal source of costs. Federal credit programs have often been criticized for their high default rates, notably the guaranteed student loan program and the Small Business Administration's business loan programs. The remainder of this section presents information on defaulting loans.

Defaults are recorded in the budget schedules in four categories:

- Direct loans for defaulting guarantees--disbursements for acquisition of loans or collateral resulting from guarantee claims;
- Forgiveness credits--principal repayments waived, as provided by statute in the event of certain specified contingencies;
- Direct loan principal written off for default; and
- Guaranteed loan principal terminated for default.

A default occurs when a lender determines that a borrower is not fulfilling the terms of the contract to repay the loan. In the case of guaranteed loans, the guaranteeing agency must repay the lender. Federal agencies usually do this by paying the original lender the outstanding principal and any accrued interest and rewriting the loan and accrued interest as a direct loan to the original borrower from the government. As shown in Table III-2, direct loans for defaulting guarantees were $2.1 billion in 1982, approximately 4 percent of total new direct loans for the year.

Direct loans for defaulting guarantees affect outlays directly by increasing net direct lending in the year of their disbursement. Defaults of direct loans, and adjustments to guaranteed loan portfolios for defaulted guarantees, do not result in new expenditures by the government. Direct loan defaults, forgiveness credits--the waiving of principal repayment--and termination of guaranteed loans are recorded as adjustments to agency loan portfolios. These other adjustments for default reduce future repayments, thus reducing cash receipts to the lending agency.

Default experience varies substantially from program to program. Some loans are backed by collateral, such as Federal Housing Administration (FHA) mortgages and SBA business loans. Others, such as the student loan programs, are backed only by the signature of the borrower. Commodity

TABLE III-2. ESTIMATED DEFAULTS BY MAJOR PROGRAM (In millions of dollars)

	1982 Actual	1983 Estimate	1984 Estimate
Direct Loans for Defaulting Guarantees			
Foreign military sales credits	217	253	306
CCC price supports	168	---	---
Economic Development Administration	68	67	65
Credit union share insurance fund	23	24	20
VA loan guarantees a/	709	796	615
SBA business loan investment fund a/	504	794	730
Export-Import Bank	25	95	63
FHA loan guarantees a/	284	298	225
Guaranteed student loans a/	289	391	424
Other	19	16	16
Subtotal	2,306	2,733	2,464
Forgiveness Credits (principal repayments waived)			
Foreign military sales credit	497	875	1,000
Economic Development Administration	53	---	---
Administration of territories	16	---	---
VA loan guarantees	9	-5	-5
Urban mass transportation fund	6	18	---
Other	3	---	---
Subtotal	584	888	995

Credit Corporation price-support loans have crops pledged against them. Some foreign military sales credit loans are forgiven in the original authorizing legislation. These variations among programs make calculation of defaults and comparison among programs difficult. Rather than drawing conclusions from summary statistics, default data should be considered on a program-by-program basis.

Table III-2. (Continued)

	1982 Actual	1983 Estimate	1984 Estimate
Direct Loan Principal Written Off For Default			
Agriculture credit insurance fund	20	25	27
CCC price supports	---	1,512	3,763
VA loan guarantees	46	42	43
SBA disaster loans	67	61	59
SBA business loan investment fund	241	330	360
Export-Import Bank	32	---	---
FHA loan guarantees	132	206	152
Student loans	43	---	---
Other	50	98	31
Subtotal	631	2,274	4,435
Guaranteed Loan Principal Terminated For Default			
Foreign military sales credit	217	253	306
Rural development insurance fund	16	24	18
CCC export loans	168	---	---
Economic Development Administration	68	67	65
VA loan guarantees	709	679	709
Aircraft purchase guarantees	16	38	---
SBA business loan insurance fund	845	1,149	850
Export-Import Bank	25	95	63
FHA loan guarantees	890	1,144	1,151
Guaranteed student loans	286	375	424
Other	39	49	34
Subtotal	3,279	3,873	3,620

a/ CBO reestimates of the President's defaults have been used for these accounts.

For example, focusing on direct loans for defaulting guarantees understates FHA's defaults. The FHA wrote off $890 million in guaranteed

loan principal for default in 1982. Loans were assumed as direct loans by FHA for only $284 million of that amount. FHA acquired property for the remaining $606 million of the defaulted mortgages.

By design, most federal loans are riskier than comparable non-subsidized assistance. A survey conducted by the Senate Budget Committee found that approximately 25 percent of federal credit programs require proof that loans were not available elsewhere as a condition of eligibility. For this reason, a greater default rate should be expected.

NET LENDING

Net lending--new loans less repayments--is the factor in federal credit activities that contributes most to the impact of the credit budget on federal outlays. Net lending is also a concept used in measuring the impact of federal credit activities on capital markets. This section first discusses the factors that contribute to net lending. It then reviews the impact of the credit budget on capital markets.

Net Lending and Outlays

As noted in the previous chapter, CBO estimates that credit budget changes proposed by the Administration would result in outlay savings of $37.6 billion over the next five years compared to the baseline. The savings seem surprisingly small as against reductions of $145.2 billion in direct and guaranteed loans. The savings would come primarily from reductions in net lending.

Net lending leads to increased cash expenditures by the government, and therefore to higher outlays. The volume of net lending is determined by the rate at which loans are disbursed and by the rate at which they are repaid--which varies depending upon the term of the loan. The credit budget controls new direct loan obligations and new loan guarantee commitments. In any year, disbursements will involve obligations and commitments from that budget year and from one or more previous years. Repayments are generated from the entire portfolio of outstanding loans.

Net lending varies, depending upon program characteristics. For example, the Commodity Credit Corporation (CCC) commodity price-support loans are obligated and disbursed to farmers in a single transaction. Loans are made against a specific crop. If the market price is above the value of the loan, the farmer sells the crop and repays the loan. Otherwise he turns the crop over to the CCC in payment for the loan. The average

term from disbursement to repayment is just over eight months. In contrast, the Rural Electrification Administration (REA) makes both insured (direct) and guaranteed loans to rural electric cooperatives for the construction and operation of generating plants, electric transmission and distribution lines, or systems in rural areas. There is approximately a seven-year lag between the time the loans are obligated or committed and the time they are fully disbursed. As of 1982, the REA had $1.3 billion in obligated but not disbursed direct loans, and $10.7 billion in committed but not guaranteed loans. REA loans are repaid over an average term of 35 years.

Table III-3 shows the Administration's estimate of net lending for direct loans by major program. Total disbursements are estimated to be $29.3 billion for 1984, repayments $19.3 billion, and net lending $10.1 billion. Net lending for on-budget programs is assumed to decrease from $9.1 billion in 1982 to net receipts of $329 million in 1984. This results primarily from an assumption of improved agricultural markets and fewer new CCC loans. Off-budget lending is also assumed to decline from 1982 to 1984. A general factor affecting net lending is the growing weight of repayments compared to disbursements, as new loans are either being frozen or are declining.

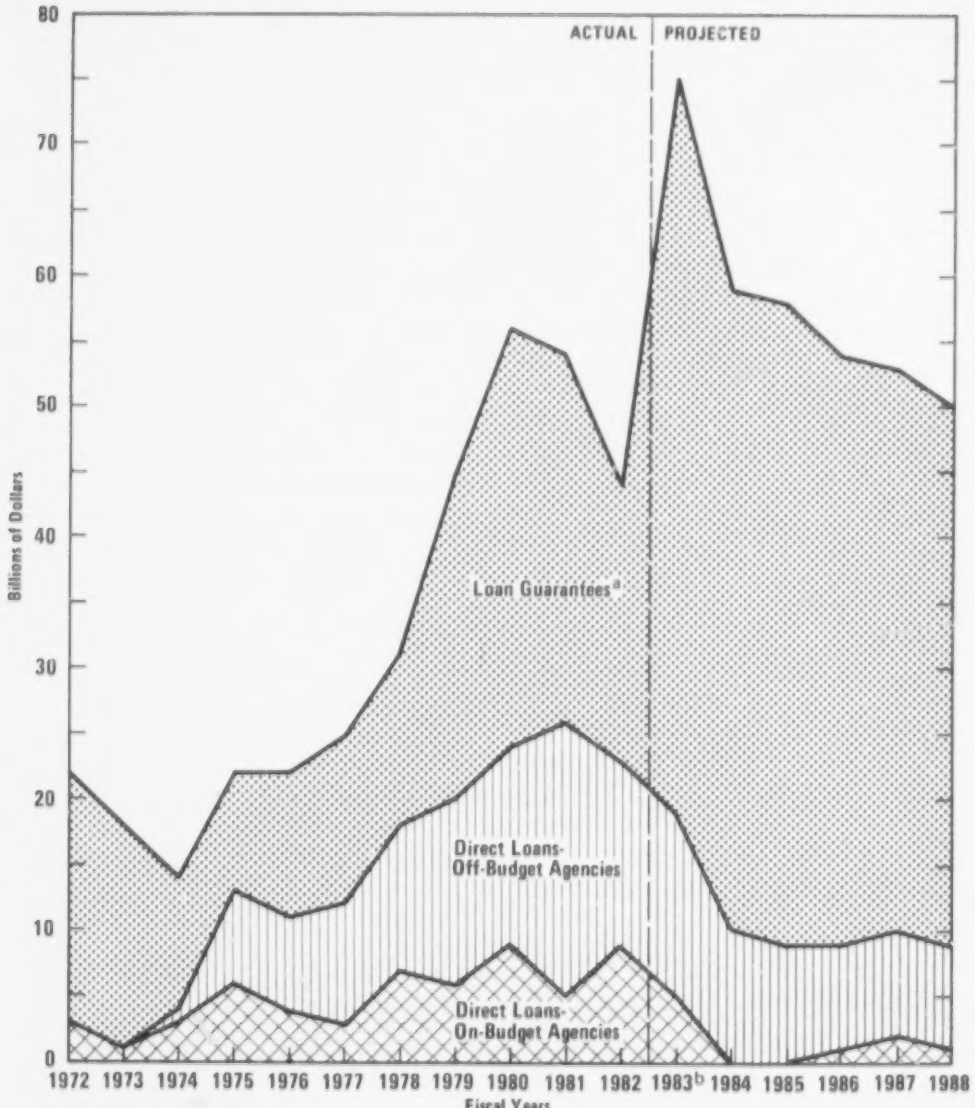
Growth in Net Federal Lending

Participation in credit markets can be measured in terms of net transactions--new loans less repayments. The growth in net federal credit, new direct lending by both on- and off-budget agencies and new loans guaranteed less repayments, is shown in Figure 2. In recent years, the volume of new direct loans and new loans guaranteed has grown rapidly. Annual net direct lending rose from $4.1 billion in 1974 to $26.1 billion in 1981, an increase of over 500 percent. Most of the growth in net direct loans occurred in lending by off-budget agencies, whose activities are excluded from the unified budget totals. Net loans guaranteed rose from $10.3 billion in 1974 to $28.0 billion in 1981, an increase of 172 percent. Under the Administration's proposals, net federal lending is estimated to increase substantially from 1982 to 1983, but to decrease in 1984 through 1988. The decrease is due first to the Administration's proposal to freeze new lending at current levels, and second to the growth in repayments that had lagged behind recent growth in new lending.

Federal Participation in Capital Markets

The federal government participates in domestic credit markets both as a lender and a borrower. It acts directly as a lender through federal loan and loan guarantee programs, the activities covered by the federal credit budget. It also affects credit markets indirectly through the lending

Figure 2.
Components of Net Federal Credit



[a] Primary guarantees: excluding secondary guarantees and guaranteed loans acquired by on- and off-budget agencies.

[b] Estimate.

SOURCE: *Budget of the United States Government, Fiscal Year 1984*, Special Analysis F, Federal Credit Programs.

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TABLE III-3. NET LENDING FOR DIRECT LOANS BY MAJOR PROGRAM (In millions of dollars)

	1982 Actual	1983 Estimate	1984 Estimate
On-budget			
Economic support fund	652	416	420
Public Law 480	590	531	548
Export-Import Bank	763	915	1,216
Commodity Credit Corporation price supports	6,325	4,382	-2,025
Small Business Administration	22	-181	-525
Housing and Urban Development programs	351	-747	-650
Education assistance	641	470	294
Veterans Administration programs	228	-404	245
Other	-465	-220	148
Subtotal, on-budget	9,107	5,162	-329
Off-budget			
Rural Electrification Administration (REA)	232	261	230
United States Railway Association (USRA)	-42	-64	-21
Federal Financing Bank (FFB)			
Purchase of loan assets			
Agriculture credit insurance fund	1,055	835	-104
Rural housing insurance fund	2,800	2,650	---
Rural development insurance fund	1,060	686	664
REA	528	565	465
Other	-4	-39	-16
Purchase of loans guaranteed by other agencies			
Foreign military sales credit	2,288	2,848	4,187
REA	3,939	5,345	4,591
Other	2,489	1,348	404
Subtotal, off-budget	14,345	14,435	10,400
Total, on- and off-budget	23,452	19,597	10,017

SOURCE: Budget of the United States Government, Fiscal Year 1984, Special Analysis F, Federal Credit Programs.

activities of privately owned, government-sponsored enterprises. The federal government borrows to support its operations. It borrows directly through the Treasury to finance on- and off-budget deficits; it borrows indirectly by guaranteeing loans of other borrowers and through the borrowing of government-sponsored enterprises.

The impact of the federal government on credit markets depends on the size of its operations compared to total credit activity. Table III-4 shows federal participation in domestic credit markets from 1973 to 1982 in relation to that total. Over the past ten years federal lending and federal borrowing have increased fairly steadily. The participation rate, in contrast, has fluctuated. In 1979 the federal government borrowed 19 percent of all funds raised in U.S. credit markets, but in 1982 the participation rate reached 50 percent. This can be attributed partly to the rise in the deficit and partly to the fall in economic activity.

The significance of the federal participation rate depends on the economy. If the private demand for credit is low--as in a recession--a $125 billion credit budget or a $202 billion deficit may not have much impact on the credit market. If, on the other hand, the economy is near full capacity and private demand for credit is high, the same credit budget would crowd out many private borrowers.

A global measure such as the federal particiption rate tends to cloud differences in the effects of particular credit programs on the demand for credit. At one extreme, direct borrowing to finance the federal deficit increases dollar-for-dollar the total demand for credit. At the other extreme, Federal Housing Administration (FHA) single family mortgage insurance and the borrowing and lending of government-sponsored enterprises leads to a relatively small increase in the demand for credit because most of these loans would have occurred in the absence of federal credit assistance.

FEDERAL FINANCING BANK ACTIVITY

The Federal Financing Bank, through its purchase of agency loan assets and agency guaranteed loans, is the government's largest lender, although it initiates no new lending. As shown in the Table III-3, the FFB accounted for 60 percent of total outlays due to net lending in 1982 and is expected to account for virtually all outlays due to net lending in 1984. The major budgetary issue presented by the FFB is not its impact on direct lending but its impact on the budget status of other federal credit activities.

The FFB purchase of agency loan assets converts on-budget direct loans of the Farmers Home Administration (FmHA) to off-budget direct

TABLE III-4. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS (In billions of dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total Funds Loaned and Borrowed in U.S. Credit Markets	198.2	187.5	177.9	243.1	308.3	383.4	426.4	366.4	427.2	408.7
Loaned Under Federal Auspices										
Direct loans										
On-budget	0.9	3.3	5.8	4.2	2.6	8.6	6.0	9.5	5.2	9.1
Off-budget	0.1	0.8	7.0	6.7	9.0	11.2	13.6	14.7	20.9	14.3
Guaranteed loans	16.6	10.3	8.6	11.1	13.5	13.4	25.2	31.6	28.0	20.9
Government-sponsored enterprises	8.5	11.2	5.6	4.9	11.7	25.2	28.1	24.1	32.4	43.4
Total	26.1	25.5	27.0	26.9	36.7	58.4	72.9	79.9	86.5	87.6
Federal participation rate (percent)	13.2	13.6	15.2	11.1	11.9	15.2	17.1	21.8	20.2	21.4
Borrowed Under Federal Auspices										
Federal borrowing from public	19.3	3.0	50.9	82.9	53.5	59.1	33.6	70.5	79.3	135.0
Borrowing for guaranteed loans	16.6	10.3	8.6	11.1	13.5	13.4	25.2	31.6	28.0	20.9
Government-sponsored enterprise borrowing	10.6	10.9	5.3	4.1	12.0	21.4	21.9	21.4	34.8	43.8
Total	46.5	24.2	64.8	98.1	79.0	93.9	80.7	123.5	142.1	199.7
Federal participation rate (percent)	23.5	12.9	36.4	40.4	25.6	24.5	18.9	33.7	33.3	48.9

SOURCE: Budget of the United States Government, Fiscal Year 1984, Special Analysis F, Federal Credit Programs.

loans of the FFB. The sales of certificates of beneficial ownership by FmHA and the REA are treated in the budget as loan asset sales, although the possession of the loan notes, servicing responsibilities, and the risk of nonpayment, are not transferred to the FFB. When assets are actually sold, the receipts are treated in the budget as repayments and netted from outlays. Similarly, FFB purchases of FmHA and REA assets are recorded as repayments by FmHA and REA, thereby reducing their outlays and increasing FFB outlays. Table III-5 shows the distribution of FFB activity for 1982 through 1984. Total loan asset purchases were $12.6 billion in 1982 and are expected to decline to $7.4 billion in 1984. The major change between 1982 and 1984 is an Administration proposal--discussed in Chapter II--to change the budgetary treatment of FmHA rural housing insurance asset sales.

TABLE III-5. DISTRIBUTION OF NEW DIRECT LOAN OBLIGATIONS OF THE FEDERAL FINANCING BANK (By fiscal year, in millions of dollars)

Credit Activity	1982 Actual	Administration Estimates 1983	1984
Purchase of Agency Loan Assets			
Farmers Home Administration			
Agriculture credit insurance	5,380	4,300	5,291
Rural housing insurance	5,170	5,335	---
Rural development insurance	1,535	1,191	1,644
Rural Electrification Admin.	528	565	465
Health Maintenance Organizations	17	16	6
Subtotal	12,630	11,408	7,406
Agency-Guaranteed Loans Held As Direct Loans			
Foreign military sales credit	3,084	4,163	4,436
Rural Electrification Admin.	4,712	4,645	3,260
Student Loan Marketing Assn.	700	---	---

(Continued)

Table III-5. (Continued)

Credit Activity	1982 Actual	Administration Estimates 1983	Administration Estimates 1984
Agency-Guaranteed Loans Held As Direct Loans (Continued)			
Community development grants	179	225	---
Railroad programs	16	31	---
TVA-Seven States Energy Corp.	4,513	5,412	6,258
SBA small business investment companies	215	375	375
Satellite leases (NASA)	146	205	37
Other	37	---	---
Subtotal	13,602	15,056	14,365
Total FFB New Lending	26,232	26,465	21,771
Net Outlays	14,155	14,239	10,192

The FFB purchase of agency-guaranteed loans converts guarantees into off-budget direct loans of the FFB. In the foreign military sales credit program, for example, the Defense Department guarantees the military purchases of a foreign country. It then sells the note to the FFB, which disburses funds to U.S. defense industries as the conditions of the loan are fulfilled. The foreign country repays the loan to the FFB. No private lenders are involved in the transaction. As noted in Table III-5, FFB purchases of agency-guaranteed loans are expected to remain relatively constant through 1984.

Changes in FFB program levels do not affect on-budget outlays, but require federal borrowing, add to public debt subject to limit, and increase the federal participation in credit markets.

CHAPTER IV. THE CREDIT BUDGET BY MAJOR BUDGET FUNCTION

This chapter provides a description of the credit activities of the government by major budget function. It describes each active credit program in terms of the CBO baseline assumptions and the Administration's request. It also describes program characteristics such as interest rates, target populations, and program financing, plus any Administration-proposed changes in the programs. Three different types of tables are used:

- o A baseline summary table for each function, giving CBO baseline estimates for 1982-1988, by account;
- o A proposed-changes table showing the effect of Administration proposals on the baseline budget as estimated by CBO;
- o A major program table giving a detailed breakdown of the credit budget components of major programs.

Data on credit programs in this chapter have been taken from the Appendix to the Budget of the United States Government, Fiscal Year 1984, specifically the series of schedules entitled "Status of Direct Loans" and "Status of Loan Guarantees" that follow the "Program and Financing" schedule for each budget account containing credit activity.

Table IV-1 summarizes the 1983 proposed credit activities by function. Direct loan programs are concentrated in three functions: agriculture, energy, and international affairs. The great bulk of guaranteed lending is in support of housing through the Commerce and Housing, Veterans' Affairs, and Income Security functions. The functional distribution of the credit budget was included for the first time in the targets of the first concurrent resolution for fiscal year 1982 and in the House and Senate Budget Committee reports on that resolution.

TABLE IV-1. CBO CREDIT BUDGET BASELINE BY FUNCTION, FISCAL YEAR 1983
(By fiscal year, in billions of dollars)

Program		CBO Baseline Estimates					
		1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
050	National Defense	---	---	---	---	---	---
150	International Affairs	10.1	11.6	12.2	12.7	13.3	13.9
250	General Science, Space and Technology	0.2	*	---	---	---	---
270	Energy	11.6	12.6	13.3	13.7	14.1	14.2
300	Natural Resources	*	*	*	*	*	*
350	Agriculture	16.4	13.2	11.0	11.3	12.0	12.0
370	Commerce and Housing Credit	6.4	6.5	6.7	7.4	8.1	8.3
400	Transportation	0.2	0.1	0.1	0.1	0.1	0.1
450	Community and Regional Development	1.6	2.2	2.3	2.4	2.5	2.8
500	Education, Training, Employment and Social Services	0.6	0.7	0.7	0.8	0.9	0.9
550	Health	*	*	*	*	*	*
600	Income Security	1.0	1.0	0.8	0.5	0.3	0.1
700	Veterans' Benefits and Services	1.0	0.8	0.6	0.7	0.8	0.9
750	Administration of Justice	---	---	---	---	---	---
800	General Government	---	---	---	---	---	---
850	General Purpose Fiscal Assistance	0.3	0.3	0.3	0.3	0.4	0.4
	Total	49.5	49.1	48.2	50.0	52.4	53.7

* Less than $50,000.

(Continued)

Table IV-1. (Continued)

Program		CBO Baseline Estimates					
		1983	1984	1985	1986	1987	1988
Loan Guarantee Commitments							
050	National Defense	---	---	---	---	---	---
150	International Affairs	9.2	9.7	10.1	10.6	11.0	11.4
250	General Science, Space and Technology	---	---	---	---	---	---
270	Energy	0.2	0.2	---	---	---	---
300	Natural Resources						
350	Agriculture	5.5	3.8	3.8	3.8	3.9	3.9
370	Commerce and Housing Credit	48.7	51.0	53.4	55.7	58.0	60.2
400	Transportation	1.0	0.7	0.3	0.3	0.3	0.3
450	Community and Regional Development	0.5	0.5	0.5	0.4	0.4	0.3
500	Education, Training, Employment and Social Services	6.5	6.6	6.6	6.6	6.6	6.6
550	Health	0.2	0.3	0.3	0.3	0.3	0.3
600	Income Security	14.6	14.7	16.5	18.1	18.5	18.5
700	Veterans' Benefits and Services	8.0	9.0	10.5	12.5	15.0	17.0
750	Administration of Justice	---	---	---	---	---	---
800	General Government	---	---	---	---	---	---
850	General Purpose Fiscal Assistance	---	---	---	---	---	---
	Total	94.6	96.5	102.0	108.4	113.9	118.6

FUNCTION 050: NATIONAL DEFENSE

The only active credit program in the defense function is a program of direct loans and loan guarantees administered by the Department of Defense to assist private businesses in fulfilling defense production contracts. The loans may be made for expansion of capacity, development of technological processes, and production of essential materials, including exploration, development, and mining of strategic and critical metals. Title III of the Defense Production Act of 1950 limits individual direct loans to $25 million and individual loan guarantees to $20 million. There have been no direct loans in recent years.

An appropriation limitation of $30 million on new primary loan guarantee commitments was enacted for 1982. For the first time, the program was financed through the Federal Financing Bank as a direct loan guaranteed by the Department of Defense. Disbursement of the $30 million commitment is expected to begin in 1983. Neither the CBO baseline nor the President's budget projects any new commitments for the program.

During the second session of the 97th Congress, there was extensive debate over H.R. 5540, the Defense Industrial Base Revitalization Act, which sought to make major amendments to the Defense Production Act of 1950. Section 303(g) of the bill authorized $1 billion in each fiscal year from 1983 through 1987 for financial incentives including direct loans, loan guarantees, purchase contracts, and price guarantees to be provided to small and medium-sized businesses to strengthen the national defense industrial base. CBO's cost estimate of the bill projected loan guarantee commitments of $2.3 billion in each specified year with total associated outlays over the five years of $5.0 billion. The estimate assumed half the authorized funds would be used for loan guarantees and that defaults would be approximately equal to the 21.8 percent rate in the Small Business Administration lending programs. H.R. 5540 was not enacted and the Defense Production Act was extended as is for six months, to be taken up by the Congress in March of this year.

FUNCTION 150: INTERNATIONAL AFFAIRS

Credit assistance in the international affairs function includes loans to foreign countries for economic development, the purchase of military equipment, and the purchase of U.S. surplus commodities. International trade is promoted through assistance to U.S. firms doing business overseas and to foreign countries and businesses making purchases in the United States. The Export-Import Bank and foreign military sales programs are among the largest of all credit programs. Table IV-2 summarizes the new direct loan obligations and new loan guarantee commitments in this function.

The CBO baseline projects a total of $11.6 billion in new direct loan obligations in 1984, increasing to $13.9 billion by 1988. The baseline projection for new primary loan guarantee commitments is $9.7 billion, increasing to $11.4 billion by 1988. The Administration is requesting total new direct loan obligations of $11.2 billion and new loan guarantee commitments of $10.3 billion in 1984. Table IV-3 highlights the differences between the baseline and the President's budget as estimated by CBO.

The Administration is proposing limitations on four credit programs: direct loans and loan guarantees for foreign military sales, the Export-Import Bank, and the Overseas Private Investment Corporation; and loan guarantees in the housing investment guaranty credit program.

Functional Development Assistance

The Foreign Assistance Act of 1961 authorizes grants and direct loans for various development assistance programs administered by the Agency for International Development (AID). These funds may be used for development assistance projects in agriculture, nutrition, health, education, human resources development, and energy research. For 1984, the CBO baseline projection is $411 million in new direct loan obligations. The program is projected to reach $485 million by 1988.

Economic Support Fund

The Economic Support Fund provides grants and loans to countries of strategic importance to the United States, particularly Turkey, Jamaica, and the Caribbean countries. Loans from the fund require annual authorization and appropriations equal to their face value. Interest is accrued at 2 to 3 percent over a period of up to 40 years. The CBO baseline projects $403

TABLE IV-2. INTERNATIONAL AFFAIRS CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Functional development assistance	398	392	411	431	449	467	485
Economic Support Fund	366	385	403	422	441	459	476
P.L. 480	777	767	809	842	897	954	1,010
Foreign military sales	800	1,175	1,230	1,289	1,345	1,399	1,452
Foreign military sales, FFB direct loans	3,083	3,638	3,809	3,991	4,166	4,333	4,497
Guarantee Reserve Fund	217	253	306	344	381	436	479
Export-Import Bank	3,516	3,425	4,606	4,827	5,038	5,240	5,438
Other	18	22	21	16	16	17	17
Total	9,175	10,057	11,595	12,162	12,733	13,305	13,854
Loan Guarantee Commitments							
Overseas Private Investment Corporation	99	100	105	110	114	119	124
Housing and other guaranty credit	122	150	157	165	172	179	185
Foreign military sales	3,083	3,638	3,809	3,991	4,166	4,333	4,497
Export-Import Bank	5,831	9,000	9,423	9,873	10,305	10,719	11,124
Total, gross	9,135	12,888	13,494	14,138	14,757	15,350	15,930
Less Guarantees of direct loans sold to the FFB	-3,083	-3,638	-3,809	-3,991	-4,166	-4,333	-4,497
New primary guarantees	6,052	9,250	9,685	10,147	10,591	11,017	11,433

TABLE IV-3. PROPOSED CHANGES IN INTERNATIONAL AFFAIRS CREDIT PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Baseline Direct Loans	11.6	12.2	12.7	13.3	13.9	
Proposed changes						
FMS	-0.2	-0.3	-0.3	-0.4	-0.5	-1.7
FMS, FFB direct loans	0.6	0.4	0.3	0.1	-0.1	1.3
Eximbank	-0.8	-1.0	-1.2	-1.4	-1.6	-6.0
Other	---	0.2	0.1	---	-0.1	0.2
Total change	-0.4	-0.7	-1.2	-1.7	-2.2	-6.2
President's budget as estimated by CBO	11.2	11.5	11.5	11.6	11.6	
Baseline Loan Guarantees	9.7	10.1	10.6	11.0	11.4	
Proposed changes						
FMS	0.6	0.4	0.3	0.1	-0.1	1.3
FMS guarantees of direct loans	-0.6	-0.4	-0.3	-0.1	0.1	-1.3
Eximbank	0.6	0.1	-0.3	-0.7	-1.1	-1.4
Other	---	0.1	---	---	---	0.1
Total change	0.6	0.2	-0.3	-0.7	-1.1	-1.3
President's budget as estimated by CBO	10.3	10.3	10.3	10.3	10.3	

million in new direct loan obligations for 1984, increasing to $476 million by 1988.

Food for Peace (Public Law 480)

Public Law 480, the Agriculture Trade Development Act of 1954, authorizes the Commodity Credit Corporation (CCC) to extend credit to foreign countries and exporters to finance the sale of agricultural com-

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modities. Credit sales for dollars are repayable over 20 years; sales for convertible foreign currencies are repayable over 40 years. Outstanding loans at the end of 1982 totaled $8.3 billion. For 1984, the CBO baseline projection is $809 million in new direct loan obligations, increasing to $1.0 billion by 1988.

Overseas Private Investment Corporation (OPIC)

OPIC encourages the participation of U.S. private capital and skills in the economic and social development of less developed friendly countries. Its primary programs are risk insurance against losses due to political upheaval and investment financing through direct and guaranteed loans. The Foreign Assistance Act of 1969, as amended, authorizes OPIC to guarantee up to 75 percent of the principal of a loan. Maximum contingent liability is limited to $750 million. For 1984, the CBO baseline projects $10 million in new direct loan obligations and $105 million in new loan guarantee commitments.

Housing and Other Guaranty Credit

The housing guaranty program extends guarantees to assist developing countries in formulating and executing sound housing and community development policies to meet the needs of lower income groups. The program's activities include providing homesites and shelter for poor families; slum upgrading projects; low-income shelter projects; and project-related community facilities and services.

For 1984, CBO projects $10 million in new direct loan obligations, entirely for defaulted loan guarantees. New loan guarantee commitments are projected at $157 million in 1984, increasing to $185 million by 1988.

Foreign Military Sales (FMS)

The Arms Export Control Act, as amended, authorizes direct loans by the Department of Defense and federal guarantees of loan agreements to foreign countries for the purchase of defense articles and services. The direct loans require an appropriation equal to the face value of the loan. Guaranteed loans are controlled by limitations in appropriations acts. The Administration estimates that direct loans of $1.2 billion and $1.0 billion will have repayments forgiven in 1983 and 1984. This forgiveness of repayment effectively converts direct loans to grants, (see Table IV-4).

For 1984, the CBO baseline projection for FMS new direct loan obligations is $1.2 billion, increasing to $1.5 billion by 1988. The Administration estimates $1.0 billion in 1984 and freezes the program at this level

TABLE IV-4. FOREIGN MILITARY SALES (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates		President's Budget as Estimated by CBO	
		1983	1984	1983	1984
Direct Loan Obligations					
On-budget direct loans					
Limitation	800	1,175	1,230	---	1,000
Exempt from limitation					
Entitlements and other mandatory programs	---	---	---	1,175	---
Total, on-budget direct loan obligations	800	1,175	1,230	1,175	1,000
FFB transactions					
Guaranteed loan purchases	3,083	3,638	3,809	3,638	4,436
Total, gross direct loan obligations	3,883	4,813	5,039	4,813	5,436
Loan Guarantee Commitments					
Limitation	3,083	3,638	3,809	3,638	4,436
Net Direct Lending					
On-budget	-116	a/	a/	-96	-74
Off-budget	2,288	a/	a/	2,848	4,187
Total	2,172	a/	a/	2,752	4,113
Cumulative Outstanding					
Direct loans	310	a/	a/	214	141
Loan guarantees	11,693	a/	a/	14,521	18,688
FFB	11,436	a/	a/	14,284	18,471

a/ Not estimated.

through 1988. In recent years all new guaranteed loans have been financed through the Federal Financing Bank; no private lender has been involved. In 1984, CBO projects $3.8 billion of new direct loans financed through the FFB and guaranteed by the Department of Defense. These loans are projected to increase to $4.5 billion by 1988. The Administration estimates $4.4 billion for these new FFB direct loans in 1984.

In fiscal year 1981, the Arms Export Control Act was amended to eliminate the requirement that 10 percent of the principal of guaranteed loans be appropriated as a reserve against defaults. The obligated balance of $1.1 billion appropriated in prior years was consolidated to create a guarantee reserve fund to make payments to lenders of FMS guaranteed loans for late payments and rescheduled loans. Such payments are treated as direct loans not subject to limitation. Repayments from borrowing countries are credited to the account. Since the fund was created, net payments have exceeded $100 million per year. The Administration is estimating new direct loan obligations of $306 million in 1984, increasing to $479 million by 1988. The fund balance will fall below $750 million in 1984 and be completely exhausted by 1987, requiring new appropriations to meet payments in fiscal year 1988.

Export-Import Bank

The Export-Import Bank (Eximbank) is a government corporation that aids in financing exports by U.S. firms to foreign countries or firms. Eximbank provides direct loans, loan guarantees, and insurance or reinsurance on terms and conditions that make U.S. products competitive with foreign products. Authority for loans, guarantees, or insurance outstanding is limited to $40 billion. At the end of 1982, a total of $22.6 billion was outstanding. Annual limitations on the program have been included in Foreign Assistance Appropriations Acts.

For 1984, CBO's baseline projection is $4.6 billion in new direct loan obligations, $0.8 billion higher than the Administration estimate, (see Table IV-5). CBO projects that these loans will increase to $5.4 billion by 1988. The President announced a plan to seek a supplemental authorization of up to $2.7 billion in new direct loans for 1984 if necessary to meet subsidized officially supported competition, but did not include these funds in his credit budget. Projections of a slow recovery in export markets suggest that this additional funding will not be necessary. CBO projects $9.4 billion in new loan guarantee commitments, $0.6 billion below the Administration estimate. These guarantees are projected to increase to $11.1 billion by 1988.

TABLE IV-5. EXPORT-IMPORT BANK (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	President's Budget as Estimated by CBO 1983	President's Budget as Estimated by CBO 1984
Direct Loan Obligations					
Limitation	4,400	4,400	4,606	4,400	3,830
Unused balance of limitation	-884	-975	---	-975	---
Total, gross direct loan obligations	3,516	3,425	4,606	3,425	3,830
Loan Guarantee Commitments					
Limitation	9,220	9,000	9,423	9,000	10,000
Unused balance of limitation	-3,388	---	---	-1,000	---
Gross loan guarantee commitments	5,832	9,000	9,423	8,000	10,000
Net Direct Lending					
On-budget	763	a/	a/	915	1,216
Cumulative Outstanding					
Direct loans	16,565	a/	a/	17,480	18,696
Loan guarantees	6,069	a/	a/	6,559	7,069

a/ Not estimated.

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

The National Aeronautics and Space Administration (NASA) conducts the only credit program in this function. NASA makes loan guarantees to Western Union Space Communications, Inc., for the construction and acquisition of the Tracking and Data Relay Satellite System. All of the loans guaranteed by NASA are financed through the Federal Financing Bank as off-budget direct loans.

Both the CBO baseline and the Administration project new loan guarantee commitments of $37 million in 1984, a decrease of $168 million from the estimated 1983 level. The FFB is expected to disburse the full $37 million as direct loans in 1984. No new guaranteed loan activity is estimated to occur after 1984. Table IV-6 shows the credit activity for NASA.

TABLE IV-6. GENERAL SCIENCE, SPACE, AND TECHNOLOGY CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
National Aeronautics and Space Admin. (NASA)							
FFB purchase of agency-guaranteed direct loans	146	205	37	0	0	0	0
Loan Guarantee Commitments							
NASA	146	205	37	0	0	0	0
Less Guarantees of direct loans sold to the FFB	-146	-205	-37	0	0	0	0
New primary guarantees	0	0	0	0	0	0	0

FUNCTION 270: ENERGY

This function includes credit programs for rural electrification and telephones funded through the Rural Electrification Administration, power projects funded through the Bonneville Power Administration, and the Tennessee Valley Authority. Table IV-7 summarizes the new direct loan obligations and new loan guarantee commitments in this function. Table IV-8 highlights the differences between the baseline and the President's budget as estimated by CBO.

Rural Electrification Administration

The Rural Electrification Administration (REA) of the Department of Agriculture conducts two capital investment programs: rural electrification, to provide electric service to farms and other rural establishments; and the rural telephone program, to furnish and improve telephone service in rural areas. Both programs are operated through the Rural Electrification and Telephone Revolving Fund (RETRF), which the Congress placed off-budget to exempt its activities from outlay or expenditure ceilings.

REA makes both direct and guaranteed loans through the RETRF. RETRF's activity has been financed primarily by the FFB through the use of loan sales and FFB origination of REA guaranteed loans. The direct loan program provides direct loans not to exceed 35 years in term, at an interest rate of 5 percent, in accordance with criteria specified in law. REA guaranteed loans are financed at one-eighth of one percent above the Treasury's borrowing rate.

In the last few years, appropriations language has presented range estimates--a floor and a ceiling--for direct loans to allow for changes in economic circumstances in rural areas during the fiscal year. The practice was continued for 1983 where the enacted limitation is $1.4 billion and the Administration only plans to obligate $1.1 billion. The CBO baseline projection for new direct loan obligations is $1.2 billion in 1984, $0.6 billion higher than the Administration. In 1984 the Administration is proposing a limitation of $0.6 billion, all of which it plans to obligate. Loan assets of the REA are pooled and sold to the FFB as certificates of beneficiary ownership (CBOs). The certificates are guaranteed by REA. CBO projects asset sales in 1984 at $0.6 billion, increasing to $0.7 billion by 1988. CBO has reestimated the Administration's loan asset sales estimate of $0.5 billion to $0.6 billion in 1984.

CBO's baseline estimate for REA loan guarantees, including guarantees of loan asset sales, is $5.3 billion in 1983 and projected to be $5.6

TABLE IV-7. ENERGY CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Rural Electrification Admin. (REA)	1,099	1,100	1,152	1,206	1,259	1,310	1,360
REA, FFB direct loans	4,712	4,745	4,968	5,203	5,432	5,650	5,866
REA, loan asset purchases	528	600	592	610	643	680	716
Tennessee Valley Authority (TVA)	77	80	84	88	92	96	100
TVA, FFB direct loans	4,513	5,641	6 373	6,801	6,884	7,040	6,853
Bonneville Power Administration	4	40	42	44	46	48	49
Total, gross	10,934	12,206	13,212	13,953	14,356	14,824	14,945
Less Sale of loan assets to the FFB	-528	-600	-592	-610	-643	-680	-716
Total	10,406	11,607	12,620	13,343	13,713	14,144	14,228
Loan Guarantee Commitments							
Rural Electrification Administration	5,640	5,345	5,560	5,813	6,075	6,330	6,583
Tennessee Valley Authority	4,513	5,641	6,373	6,801	6,884	7,040	6,853
Geothermal resource development	---	153	152	---	---	---	---
Total, gross	10,153	11,139	12,086	12,615	12,959	13,370	13,436
Less Guarantees of direct loans sold to the FFB	-9,753	-10,986	-11,933	-12,615	-12,959	-13,370	-13,436
New Primary Guarantees	400	153	152	---	---	---	---

TABLE IV-8. PROPOSED CHANGES IN ENERGY CREDIT PROGRAMS
(By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Baseline Direct Loans	12.6	13.3	13.7	14.1	14.2	
Proposed changes						
REA	-0.6	-0.6	-0.7	-0.7	-0.8	-3.4
REA, FFB direct loans	-1.7	-1.9	-2.2	-2.4	-2.6	-10.8
REA, loan assets a/	(---)	(-0.2)	(-0.4)	(-0.7)	(-0.7)	(-2.0)
Total change	-2.3	-2.5	-2.8	-3.1	-3.4	-14.2
President's budget as estimated by CBO	10.3	10.8	10.9	11.0	10.9	
Baseline Loan Guarantees	0.2	---	---	---	---	---
Proposed changes						
REA	-1.6	-2.1	-2.5	-2.9	-3.2	-12.3
REA guarantees of direct loans	1.7	2.2	2.6	3.0	3.3	12.8
Total change	0.1	0.1	0.1	0.1	0.1	0.5
President's budget as estimated by CBO	0.3	0.1	0.1	0.1	0.1	

a/ Amounts in parentheses are changes that are added and then deducted from the credit budget, and do not affect total change.

billion in 1984. The Administration proposes to reduce guarantees from $5.3 billion in 1983 to $3.8 billion in 1984, a difference of $1.5 billion. This represents a reduction of $2.2 billion from the baseline in 1984. The CBO

TABLE IV-9. RURAL ELECTRIFICATION ADMINISTRATION (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	President's Budget as Estimated by CBO 1983	President's Budget as Estimated by CBO 1984
Direct Loan Obligations					
Limitation	1,425	1,100	1,152	1,426	575
Unused balance of limitation	-326	---	---	-325	---
Total, on-budget direct loan obligations	1,099	1,100	1,152	1,101	575
FFB transactions					
Loan asset purchases	528	600	592	600	564
Guaranteed loan purchases	4,712	4,745	4,968	4,645	3,260
Total FFB acquisitions	5,240	5,345	5,560	5,245	3,824
Total, gross direct loan obligations	6,339	6,445	6,712	6,346	4,399

baseline assumes the floor level for guarantees while the Administration estimate assumes the ceiling.

The Administration anticipates that an increase in the availability of supplemental financing from the National Rural Utility Cooperative Finance Cooperation and other sources will satisfy a part of the capital requirement of the rural electric systems.

Total outstanding commitments for REA loan guarantees in 1982 were $30.8 billion, $10.7 billion more than the total loan guarantees made. In 1983, the Administration estimates $35.4 billion in total commitments and $26.1 billion in guarantees outstanding, a difference of $9.3 billion. In 1984, the difference decreases to $7.3 billion with total commitments estimated at $38.6 billion and total guarantees outstanding of $31.3 billion. REA projects often have a long lead time from commitment to actual disbursement of loans.

Table IV-9. (Continued)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	President's Budget as Estimated by CBO 1983	President's Budget as Estimated by CBO 1984
Loan Guarantee Commitments					
Limitation	6,400	4,745	4,968	5,950	3,360
Unused balance of limitation	-1,288	---	---	---	---
Guarantees of assets sold to FFB	528	600	592	600	564
Gross loan guarantee commitments	5,640	5,345	5,560	6,550	3,924
Net Direct Lending					
Off-budget					
REA	130	93	94	93	94
FFB	3,939	4,872	4,813	4,872	4,782
Total	4,069	4,965	4,907	4,965	4,876
Cumulative Outstanding					
Direct loans	9,774	9,867	9,961	9,867	9,961
Loan guarantees	17,001	21,873	26,685	21,873	26,655
FFB	16,282	21,154	25,967	21,154	25,936

Tennessee Valley Authority

The Tennessee Valley Authority (TVA) is a government-owned corporation created to oversee the unified development of a river basin comprising parts of seven states. The Seven States Energy Corporation is a TVA subsidiary that finances TVA's nuclear fuel acquisition. The corporation borrows from the FFB to finance its lending, with TVA guaranteeing the indebtedness through purchase agreements. The CBO baseline projection for the corporation's gross borrowing from the FFB is $6.4 billion in 1984, an increase of $0.7 billion from the 1983 base, (see Table IV-10). After increasing by $0.4 billion in 1985, the program is expected to level at approximately $6.9 billion through 1988.

TABLE IV-10. TENNESSEE VALLEY AUTHORITY (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	President's Budget as Estimated by CBO 1983	President's Budget as Estimated by CBO 1984
Direct Loan Obligations					
Exempt from limitation					
Entitlements and other mandatory programs	77	81	84	89	99
FFB transactions					
Guaranteed loan purchases	4,513	5,641	6,373	5,412	6,258
Total, gross direct loan obligations	4,590	5,722	6,457	5,501	6,357
Loan Guarantee Commitments					
Exempt from limitation	4,513	5,641	6,373	5,412	6,258
Net Direct Lending					
On-budget	69	53	46	57	55
Off-budget	336	195	184	193	181
Total	405	248	230	250	236
Cumulative Outstanding					
Direct loans	267	320	366	324	379
Loan guarantees	1,258	1,453	1,637	1,451	1,632
FFB	1,258	1,453	1,637	1,451	1,632

TVA also has a direct loan program for making low-interest loans for conservation through utilities serving the borrowers. TVA is then paid back through these utilities. CBO's baseline projection is $84 million in new direct loan obligations in 1984, increasing to $99 million by 1988.

Bonneville Power Administration

The Bonneville Power Administration provides direct loans for energy conservation. These loans are made through the power distribution companies serving borrowers for the purpose of promoting residential conservation measures. No interest is specifically charged, and repayment of principal occurs over a period of five years. The cost of interest is included in the rates charged to all power recipients, since energy conservation is perceived as a general benefit to the Bonneville system.

In 1982, a limitation of $40 million was enacted for new direct loan obligations, $36 million higher than the amount actually obligated. CBO's baseline projection for 1984 is $42 million, increasing to $49 million by 1988.

The Administration is proposing a $20 million limitation on new loan guarantee commitments in 1984. CBO is not assuming any new commitments for the program.

Geothermal Resources Development

The geothermal resources development program provides loan guarantees to assist the private sector in developing geothermal resources by minimizing lender's financial risk associated with the introduction of new technology. The CBO baseline estimate for new loan guarantee commitments is $152 million in 1984.

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

Function 300 contains two direct loan programs: the Interior Department's water resources loan program and loans for reconstruction of the Filene Center at Wolf Trap Farm Park. Table IV-11 summarizes new direct loan obligations in this function.

TABLE IV-11. NATURAL RESOURCES AND ENVIRONMENT CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Bureau of Reclamation loan program	25	27	28	30	31	32	33
Construction (Wolf Trap)	---	---	8	---	---	---	---
Total	25	27	36	30	31	32	33

The Small Reclamation Projects Act provides authorization for loans to nonfederal organizations for construction or rehabilitation of small water resource projects. The Distribution Systems Loan Act provides loans to organizations for the construction of irrigation and municipal or industrial waste distribution systems on authorized federal reclamation projects. The CBO baseline projection for new direct loan obligations in 1984 is $28 million, increasing to $33 million by 1988.

Public Law 97-310 provides for the reconstruction of the Filene Center at Wolf Trap Farm Park for the Performing Arts. The CBO baseline projection for 1983 new direct loan obligations is $8.0 million. No new loans are projected for 1984.

FUNCTION 350: AGRICULTURE

Credit assistance for agriculture consists of loans and loan guarantees of the Farmers Home Administration Agriculture Credit Insurance Fund (ACIF) and the Commodity Credit Corporation (CCC), both in the Department of Agriculture. Table IV-12 summarizes new direct loan obligations and new loan guarantee commitments by the ACIF and the CCC in fiscal years 1982-1988. Table IV-13 highlights differences between the CBO baseline and the President's budget as estimated by CBO for agriculture programs.

Agriculture Credit Insurance Fund

The ACIF provides a wide variety of direct loans to farmers, ranchers, and others engaged in agricultural activities. Loans support farm ownership and operations, soil and water conservation and development, development of recreation enterprises and emergency disaster relief to individuals. Associations are eligible for loans for irrigation and drainage, Indian land acquisition, watershed protection, flood prevention, and resource conservation and development. Table IV-14 summarizes the credit activity for the ACIF from 1982-1984.

The terms for direct loans made through the ACIF are more favorable than those for commercial loans. Farm ownership, property, and resource development loans have long-term maturities, usually 35 to 40 years, and bear interest at ACIF's cost of borrowing from the Treasury plus a small administrative fee. Low-income borrowers receive 20 percent of all new loans extended. These loans are made at lower interest rates, usually half the cost of Treasury borrowing to a minimum of 5 percent. Farm operating loans have shorter terms, usually 7 to 10 years, and use the same Treasury interest rate. Twenty percent of the operating loans are made to low-income farmers who receive interest at three percentage points below the government cost of borrowing to a minimum of 5 percent. Disaster loans for farm ownership and operations have the same maturities, and loans on losses are let at 8 percent. Guaranteed loans have the same maturities as direct loans although the interest rate is negotiated between the lender and the borrower.

The ACIF is a revolving fund. Sales of direct loans held by the ACIF provide funds for further loans. Groups of loans are packaged as a pool in a certificate of beneficial ownership (CBO), or loan asset, and sold. Most CBOs are sold with an ACIF guarantee to the Federal Financing Bank (FFB). Because proceeds from these loan assets are considered to be offsetting

TABLE IV-12. AGRICULTURE CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Agriculture Credit Insurance Fund (ACIF) a/	4,199	4,544	4,656	4,875	5,091	5,297	5,478
ACIF, FFB purchases of loan assets	5,380	4,524	4,628	4,820	5,037	5,245	5,447
Commodity Credit Corporation price support and related programs	11,500	11,877	8,564	6,149	6,173	6,686	6,531
Total, gross	21,079	20,945	17,848	15,844	16,301	17,228	17,456
Less Sale of FFB loan assets	-5,380	-4,524	-4,628	-4,820	-5,037	-5,245	-5,447
Total	15,699	16,421	13,220	11,024	11,264	11,983	12,009
Loan Guarantee Commitments							
Agriculture Credit Insurance Fund	5,437	5,255	5,387	5,616	5,868	6,108	6,342
CCC price supports and related programs	1,551	4,800	3,000	3,000	3,000	3,000	3,000
Total, gross	6,988	10,055	8,387	8,616	8,868	9,108	9,342
Less Guarantees of direct loans sold	-5,380	-4,524	-4,628	-4,820	-5,037	-5,245	-5,447
Total	1,608	5,531	3,759	3,796	3,831	3,868	3,895

a/ ACIF direct loan obligations are shown net of FmHA's repurchase of loan assets from the FFB.

TABLE IV-13. PROPOSED CHANGES IN AGRICULTURE CREDIT PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Baseline Direct Loans	13.2	11.0	11.3	15.9	13.3	
Proposed changes						
ACIF	-0.7	-0.8	-1.1	-1.3	-1.4	-5.3
ACIF, loan assets a/	(0.6)	(-0.8)	(-4.0)	(-5.1)	(-1.1)	(-10.4)
CCC	-0.5	-0.5	-0.6	-0.6	-0.6	-2.8
Total change	-1.2	-1.3	-1.7	-1.9	-2.0	-8.1
President's budget as estimated by CBO	12.0	9.7	9.6	10.1	10.0	
Baseline Loan Guarantees	3.8	3.8	3.8	3.9	3.9	
Proposed changes						
ACIF	-0.7	-0.7	-0.7	-0.8	-0.8	-3.7
Total Change	-0.7	-0.7	-0.7	-0.8	-0.8	-3.7
President's budget as estimated by CBO	3.1	3.1	3.1	3.1	3.1	

a/ Amounts in parentheses are changes that are added and then deducted from the credit budget, and do not affect total change.

collections, they are counted as negative outlays, and reduce net lending. Selling loan assets to the FFB has the effect of transferring budget outlays from the ACIF to the off-budget FFB.

CBO's baseline projection for ACIF direct loan obligations is $4.7 billion in 1984, increasing to $6.7 billion by 1988. The Administration is requesting a limitation of $4.0 billion on new direct loan obligations, and is freezing the program at this level through 1988. The CBO baseline projection for new loan asset sales is $4.6 billion, increasing to $5.4 billion by 1988. The Administration estimates $5.4 billion in new loan asset sales, decreasing to $4.3 billion by 1988. The CBO baseline projection for new loan guarantee commitments is $5.4 billion in 1984: $131 million for farm ownership, farm operating and soil and water guarantees; $628 million inflated from the $600 million limitation for economic emergency guaranteed loans provided in the 1983 Agriculture Appropriation Act; and guarantees of loan asset sales of $4.6 billion. The Administration is requesting a

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limitation of $106 million on new loan guarantee commitments plus guarantees of loan asset sales of $5.3 billion for a total of $5.4 billion in new loan guarantees. CBO projects new loan guarantee commitments increasing to $6.3 billion by 1988. The Administration projects guarantees decreasing to $4.4 billion by 1988.

In the credit control system, limitations are imposed only on new direct loans and loan guarantees by the ACIF to the public. Sales of loan assets and guarantees of these sales are considered to be financing transactions. Therefore, no limitations are made on direct loan obligations or loan guarantee commitments associated with asset sales.

The Administration is proposing a number of changes in the ACIF lending programs. In the farm ownership and farm operating programs, legislation is proposed to increase the limitation in principal indebtedness of borrowers, giving additional assistance to beginning farmers. In both programs, legislation will be proposed to eliminate lending for recreational enterprises. The Administration is proposing to eliminate funding for irrigation and drainage loans, resource conservation and development and watershed protection, general recreation loans, and flood prevention loans in 1984. It proposes to increase interest rates in some programs to the cost of Treasury money for all borrowers. In addition, legislation will be proposed to eliminate emergency disaster loans when federal crop insurance is generally available to producers in an area. This proposal is designed to provide an incentive for farmers to move toward participation in the crop insurance program rather than rely on the availability of subsidized loans to recover from disaster losses. The prospect that these loans would become available has encouraged some farmers to assume unacceptable financial risk.

Commodity Credit Corporation

The Commodity Credit Corporation (CCC) conducts two direct loan programs and one loan guarantee program for farm income stabilization and support. Table IV-15 summarizes the new direct loan obligations and new loan guarantee commitments for 1982 through 1984.

The CCC's principal form of credit assistance is the nonrecourse commodity loan. The CCC makes direct loans to producers with the crop or commodity serving as collateral. On the maturity date, approximately nine months later, the producer may either pay off the loan or deliver his crop to the CCC. Commodity loans act to set a floor under market prices because they are based on a given price. If the market price is below the support price, the farmer delivers his crop to the CCC rather than repay the loan. If the market price is above the support price, he sells the crop himself and

TABLE IV-14. AGRICULTURE CREDIT INSURANCE FUND (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	President's Budget as Estimated by CBO 1983	President's Budget as Estimated by CBO 1984
Direct Loan Obligations					
Limitation	2,129	2,249	2,249	2,249	3,974
Unused balance of limitation	-264	---	---	---	---
Exempt from limitation					
Repurchases	4,325	3,465	5,395	3,465	5,395
Entitlements and other mandatory programs	2,334	2,295	2,407	2,015	5
Total, on-budget direct loan obligations	8,524	8,009	10,051	7,729	9,374
FFB transactions					
Loan asset purchases	5,380	4,524	4,628	4,300	5,291
Total, gross direct loan obligations	13,904	12,533	14,679	12,029	14,665
Loan Guarantee Commitments					
Limitation	201	731	759	131	106
Unused balance of limitation	-144	---	---	---	---
Exempt from limitation	5,380	4,524	4,628	4,300	5,291
Gross loan guarantee commitments	5,437	5,255	5,387	4,431	5,397
Net Direct Lending					
On-budget	-241	-420	-132	-420	-132
Off-budget	1,055	1,040	539	835	-104
Total	814	620	407	415	-236
Cumulative Outstanding					
Direct loans	795	375	243	375	243
Loan guarantees	1,132	1,100	1,052	1,100	1,052
FFB	23,412	24,452	24,758	24,247	24,143

repays the loan with interest. The CBO 1984 baseline projection for new direct loan obligations for commodity loans is $8.0 billion, decreasing to $5.9 billion by 1988. The Administration proposes $8.0 billion for these loans in 1984, reflecting a $2.4 billion reduction from the current services estimate of $10.3 billion. This reduction reflects implementation of the payment-in-kind program, which is discretionary under existing authority. Under the program, farmers are offered, at no expense, surplus commodities held in CCC reserves by the CCC in exchange for reducing their production of wheat, feed grains, rice, or cotton.

TABLE IV-15. COMMODITY CREDIT CORPORATION (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	President's Budget as Estimated by CBO 1983	President's Budget as Estimated by CBO 1984
Direct Loan Obligations					
Limitation	2,200	500	524	500	---
Unused balance of limitation	-2,153	---	---	-150	---
Exempt from limitation					
Entitlements and other mandatory programs	11,454	11,377	8,040	11,377	8,040
Total, gross direct loan obligations	11,500	11,877	8,564	11,727	8,040
Loan Guarantee Commitments					
Exempt from limitation	1,551	4,800	3,000	4,800	3,000
Net Direct Lending					
On-budget	6,325	a/	a/	4,382	-2,025
Total	6,325	a/	a/	4,382	-2,025
Cumulative Outstanding					
Direct loans	12,484	a/	a/	16,867	14,842
Loan guarantees	2,650	a/	a/	6,038	5,626

a/ Not estimated.

The CCC also conducts an export credit sales program to maximize exports of agricultural commodities and products. In 1982, the Congess enacted a limitation of $2.2 billion on new direct loan obligations for the program. Only $46.2 million were actually obligated. The CBO baseline projection for new direct loan obligations is $0.5 billion in 1984, the amount enacted in the Agriculture Appropriation bill for 1983. The Administration is requesting $0.1 billion for this program in 1984.

As the direct loan export program is phased out, the CCC's non-commercial risk assurance program will take over its activities. Under this program, the CCC guarantees U.S. exporters against default due to non-commercial risks on payments owed to them under deferred payment sales contracts. The program is designed to protect exporters from defaults caused by political instability. The CBO baseline projection for new loan guarantee commitments is $3.0 billion in 1984 through 1988.

FUNCTION 370: COMMERCE AND HOUSING CREDIT

Credit programs in this function are designed to promote the flow of funds into commerce and housing. Programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development (HUD), the rural housing insurance fund of the Farmers Home Administration (FmHA), the business loan programs of the Small Business Administration (SBA), the National Credit Union Administration, and other activities.

The CBO baseline estimates $6.5 billion in new direct loan obligations and $51.0 billion in new loan guarantee commitments for 1984. Table IV-16 summarizes the credit activity in this function for 1982 through 1988. The Administration's request as estimated by CBO proposes $2.3 billion in new direct loan obligations and $42.3 billion in new loan guarantee commitments for 1984.

Federal Housing Administration

The first major loan guarantee program of the federal government was home mortgage insurance, begun during the Depression. Today, home mortgage insurance continues to be the largest federal credit activity. The mortgage insurance programs of the Federal Housing Administration (FHA) are administered through the FHA fund, which is actually a collection of insurance funds, each providing mortgage insurance for a targeted group of consumers.

The CBO baseline projects FHA loan guarantee commitment limitations of $45.9 billion in 1983 and $48.1 billion in 1984. For 1984 FHA new direct loan obligations, the baseline estimate is $272 million. Of that amount, $225 million will be used to cover defaults against FHA-insured mortgages.

In cases of default, the FHA pays off the holder of the guaranteed mortgage and the mortgage becomes a direct loan for which the FHA seeks repayment. The volume of direct loan obligations estimated for default claims greatly understates the FHA's activities involving defaulted properties. In addition to acquiring defaulted mortgages and notes, the FHA acquires defaulted real properties and other assets, incurring substantial property expenses to manage and maintain them. Real property acquisition is not reflected in the credit budget, since it involves no lending. Total default-related costs for FHA in 1983 and 1984 are estimated to be $1.1 billion annually.

CBO estimates that the limitation on FHA loan guarantee commitments will increase from $48.1 billion in 1984 to $56.7 billion by 1988. The Administration's request assumes a constant limitation level of $39.8 billion from 1984 through 1988. Table IV-17 shows the Administration's proposed changes in the CBO baseline for FHA and other major programs in this function, for 1984 through 1988. The Administration estimates are based on its expectation that private mortgage insurers will be able to adequately serve a relatively larger share of the housing market as interest rates decline and economic conditions improve, and as part of its continuing policy to reduce the federal role in housing credit. In response to increased demand for FHA-insured mortgages in the latter months of 1982, the Administration requested and received a $6.1 billion supplemental to the enacted limitation level for 1983, raising it to $45.9 billion.

The Administration is again proposing legislation to remove existing statutory ceilings on interest rates for FHA mortgages, and to eliminate the regulation that prohibits FHA-insured homebuyers from directly paying points, or interest charges, on the purchased property. FHA also will begin two new programs in 1983. One allows direct approval of FHA-insured mortgages by approved mortgage lenders. The other program changes the method of collecting FHA insurance premiums. It establishes either a lump sum payment at the time of settlement, or adds insurance costs to the mortgage value, replacing monthly premium payments. Table IV-18 shows a detailed description of credit activity in the FHA fund.

Government National Mortgage Association

Major federal support for the mortgage market is provided by the activities of the Government National Mortgage Association (GNMA). GNMA guarantees securities that are issued by mortgage bankers and other financial institutions. These securities are backed by pools of mortgages insured by the FHA, the Veterans Administration, or the Farmers Home Administration. Because the GNMA guarantees are attached to previously insured mortgages, they are counted as secondary guarantees in the credit budget and are deducted from the credit budget totals. The GNMA-guaranteed securities are attractive to investors who have not traditionally invested in mortgages. Through its guarantees, GNMA is able to draw more funds into housing credit.

The CBO baseline projects guaranteed loan commitment limitation levels of $68.2 billion in 1983 and $71.5 billion in 1984, increasing to $84.4 billion in 1988. The Administration is requesting a commitment limitation

TABLE IV-16. COMMERCE AND HOUSING CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Rural housing insurance fund a/	3,454	3,377	3,475	3,707	4,345	4,972	5,160
FFB purchase of loan assets	5,170	5,131	6,321	4,839	2,745	2,864	2,993
National Credit Union Admin.	104	100	105	105	105	105	105
Federal Housing Admin. fund	284	343	272	274	277	279	281
Housing for the elderly or handicapped fund	819	634	668	703	732	762	790
Special assistance functions fund	1,980	500	526	554	578	600	622
SBA business loan and investment fund	683	1,005	951	855	810	794	777
SBA, FFB purchase of agency-guaranteed direct loans	215	410	430	451	470	489	507
Other	56	61	63	65	69	70	73
Total, gross	12,765	11,561	12,811	11,553	10,131	10,935	11,308
Less Sale of loan assets to the FFB	-5,170	-5,131	-6,321	-4,839	-2,745	-2,864	-2,993
Total	7,595	6,430	6,490	6,715	7,385	8,072	8,315

a/ RHIF direct loan obligations are shown net of FmHA's repurchase of loan assets from the FFB.

TABLE IV-16. (Continued)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Loan Guarantee Commitments							
Rural housing insurance fund	5,187	5,151	6,341	4,859	2,765	2,884	3,013
Federal Housing Admin. fund	18,576	45,900	48,057	50,352	52,556	54,667	56,732
Government National Mortgage Association (GNMA), guarantees of mortgage-backed securities	36,382	68,250	71,458	74,870	78,146	81,286	84,357
Small Business Admin. pollution control equipment contract guarantee revolving fund	50	250	262	274	286	298	309
SBA, business loan and investment fund	2,019	3,300	3,455	3,620	3,779	3,930	4,079
Other	74	158	162	141	145	149	153
Total, gross	62,288	123,009	129,735	134,117	137,678	143,213	148,644
Less							
Guarantees of direct loans sold to the FFB	-5,385	-5,541	-6,751	-5,290	-3,215	-3,353	-3,500
Guarantees of direct loans held by GNMA	-1,985	-501	-527	-554	-578	-600	-623
Secondary loan guarantees	-36,382	-68,250	-71,458	-74,870	-78,146	-81,286	-84,357
New primary guarantees	18,536	48,717	50,999	53,403	55,738	57,975	60,164

TABLE IV-17. PROPOSED CHANGES IN COMMERCE AND HOUSING CREDIT PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes	
Baseline Direct Loans	6.5	6.7	7.4	8.1	8.3		
Proposed changes							
Rural housing insurance fund (RHIF)	-3.2	-3.0	-3.9	-4.6	-4.8	-19.5	
RHIF, FFB loan assets	(-2.1)	(-3.1)	(-2.7)	(-2.9)	(-3.0)	(-13.8)	a/
SBA, business loan and investment fund	-0.2	-0.3	-0.3	-0.4	-0.5	-1.7	
Special assistance functions fund	-0.5	-0.6	-0.6	-0.6	-0.6	-2.9	
Other	-0.3	-0.2	-0.3	-0.3	-0.1	-1.2	
Total changes	-4.2	-4.1	-5.1	-5.9	-6.0	-25.3	
President's budget as estimated by CBO	2.3	2.7	2.3	2.2	2.3		
Baseline Loan Guarantees	51.0	53.4	55.7	58.0	60.2		
Proposed changes							
FHA fund	-8.3	-10.6	-12.8	-14.9	-16.9	-63.5	
Special assistance functions fund	0.5	0.6	0.6	0.6	0.6	2.9	
SBA, business loan and investment fund	-0.7	-1.2	-2.0	-2.8	-2.9	-9.6	
GNMA, guarantees of mortgage-backed securities	(-12.8)	(-16.2)	(-19.5)	(-22.6)	(-25.7)	(-96.8)	a/
Other	-0.2	-0.3	-0.2	-0.3	-0.4	-1.4	
Total changes	-8.7	-11.5	-14.4	-17.4	-19.6	-71.6	
President's budget as estimated by CBO	42.3	41.9	41.3	40.6	40.6		

a/ Amounts in parentheses are changes that are added and then deducted from the credit budget, and do not affect total change.

TABLE IV-18. FEDERAL HOUSING ADMINISTRATION FUND (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	Administration Estimates 1983	Administration Estimates 1984
Direct Loan Obligations					
Limitation	76	45	47	45	56
Unused balance of limitation	-76	---	---	-3	---
Exempt from limitation					
Defaults	284	298	225	298	231
Total, gross direct loan obligations	284	343	272	341	288
Loan Guarantee Commitments					
Limitation	40,000	45,900	48,057	45,900	39,800
Unused balance of limitation	-21,424	---	---	---	---
Gross loan guarantee commitments	18,576	45,900	48,057	45,900	39,800
Net Direct Lending					
On-budget	-142	-161	-417	-161	-417
Cumulative Outstanding					
Direct loans	4,150	3,990	3,572	3,990	3,572
Loan guarantees	142,252	179,660	218,826	171,422	197,747

of $58.6 billion in 1984 and projects that level through 1988, consistent with its policy to restrain the limitation for this program.

GNMA also purchases mortgages to support the flow of housing credit. Through its special assistance functions fund or the tandem plan, GNMA purchases below-market-interest-rate FHA and VA loans from lenders, at or near their full face value. GNMA then sells the mortgages at market rates to other investors, absorbing the resulting discount costs. The CBO baseline projects $526 million in new direct loan obligations for 1984 for this fund. The Administration has not requested any new activity for 1984 and has proposed changes in law that would transfer the assets and liabilities of the fund to HUD's management and liquidating functions fund.

Housing for the Elderly or Handicapped

Section 202 of the Housing Act of 1959, as amended, provides for a program of direct loans to nonprofit sponsors, consumer cooperatives, and certain public agencies to construct rental housing for elderly and handicapped persons. The loans have a maximum term of 40 years and used to bear interest based on the Treasury's borrowing rate, plus an allowance to cover administrative expenses. Recently the Congress limited the interest rates to 9.25 percent regardless of Treasury costs.

For 1984, the CBO baseline projects new direct loan obligations of $668 million, increasing to $790 million by 1988. The Administration's request for 1984 is $476 million, increasing to $579 million by 1988.

Rural Housing Insurance Fund

The Rural Housing Insurance Fund (RHIF) of FmHA makes direct loans for rural housing purchases, rental and cooperative housing projects, farm labor housing projects, and preparation of rural housing sites.

The CBO baseline projects new direct loan obligations of $7.4 billion for RHIF in 1984, $3.9 billion of which are exempt from limitation and represent repurchases of maturing certificates of beneficial ownership (CBOs) from the Federal Financing Bank (FFB). The remaining $3.5 billion are for ongoing program activities of the fund. The RHIF guarantees loan assets most of which are sold to the FFB. New loan guarantee commitments are projected to be $6.3 billion in 1984.

The Administration's request as estimated by CBO proposes a major cut in new direct loans for rural housing. The Administration proposes to replace existing FmHA rural housing assistance with a housing block grant to states, thus reducing new direct lending from an estimated $3.3 billion in 1983 to $0.3 billion in 1984. The Administration also will introduce

legislation to change the treatment of CBO transactions with the FFB. Under current law, proceeds from CBOs are treated as sales of assets. Beginning in 1984, the proposed legislation would reclassify outstanding CBOs as agency debt. The issuance of new CBOs would be treated as borrowing and their retirement would be considered redemption of debt. The shift in budgetary treatment of CBOs would decrease FFB direct lending by $4.3 billion in 1984 and reduce its outlays by $333 million. Since FFB direct loans to purchase agency loan assets are not included in the credit budget totals, the proposed reduction of $4.3 billion has no impact on the credit budget. Finally, the Administration proposes to transfer the self-help land development fund into RHIF, since little loan activity has occurred in the land development fund.

Table IV-19 shows the credit activity of RHIF in detail, including the effect of the Administration's proposal to reclassify its CBOs.

Small Business Administration

The Small Business Administration (SBA) provides credit to small businesses in the form of direct loans, loan guarantees, lease contracts, and pollution control equipment contracts. Most of this credit assistance occurs in the business loan and investment fund of SBA. Table IV-20 shows detailed credit activity of this fund for 1982 through 1984.

No limitations have been enacted in appropriations language for new direct loans or loan guarantees in 1983. The report language that accompanies the appropriations bills, however, did specify limitations of $210 million in direct loan obligations and $3.0 billion in contingent liability for loan guarantee commitments for the business loan and investment fund. SBA has interpreted this language as a limitation on its program level. The Budget Committees in scoring Congressional action on credit budget programs, include only those limitations enacted in appropriations bills.

CBO's baseline estimate for 1984 new direct loan obligations is $951 million, decreasing to $777 million by 1988. Direct loans of approximately $220 million will be made to individual businesses and to minority small business investment companies in 1984. The remaining $731 million of the 1984 new direct loan obligations will be used to pay loan guarantee default claims.

Loan guarantee commitments are projected to be $3.5 billion in 1984, increasing to $4.1 billion in 1988. The loan guarantee commitments in the CBO baseline represent the full principal value of the loans, although the government's contingent liability--the percentage of principal that is guaranteed--is partial. This presentation of commitments was instituted

TABLE IV-19. RURAL HOUSING INSURANCE FUND (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates		President's Budget as Estimated by CBO	
		1983	1984	1983	1984 a/
Direct Loan Obligations					
Limitation	3,725	3,320	3,459	3,314	300
Unused balance of limitation	-545	---	---	---	---
Exempt from limitation					
Repurchases from FFB	2,370	2,685	3,930	2,685	---
Repurchases from private investors	275	63	16	63	8
Total, on-budget direct loan obligations	5,824	6,068	7,405	6,062	308
FFB transactions					
Loan asset purchases	5,170	5,131	6,321	5,335	---
Total, gross direct loan obligations	10,994	11,199	11,726	11,397	308
Loan Guarantee Commitments					
Exempt from limitation	5,187	5,151	6,341	5,351	13
Gross loan guarantee commitments	5,187	5,151	6,341	5,351	13
Net Direct Lending					
On-budget	-378	-47	---	-177	326
Off-budget	2,800	2,417	2,395	2,650	---
Total	2,432	2,370	2,395	2,473	326
Cumulative Outstanding					
Direct loans	447	400	400	270	596
Loan guarantees	24,989	27,390	29,790	27,569	1,106
FFB	23,921	26,338	28,773	26,571	---

a/ Administration estimates for 1984 reflect reclassification of certificates of beneficial ownership (CBOs) as agency debt, thus removing CBO transactions from the credit budget.

TABLE IV-20. SMALL BUSINESS ADMINISTRATION, BUSINESS LOAN AND INVESTMENT FUND (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	President's Budget as Estimated by CBO 1983	President's Budget as Estimated by CBO 1984
Direct Loan Obligations					
Limitation	---	---	---	---	41
Exempt from limitation					
Repurchases	1	1	1	1	1
Defaults	504	794	730	794	729
Entitlements and other mandatory programs	178	210	220	72	---
Total, on-budget direct loan obligations	683	1,005	951	867	771
FFB transactions					
Guaranteed loan purchases	215	410	430	375	375
Total, gross direct loan obligations	898	1,415	1,381	1,242	1,146
Loan Guarantee Commitments					
Limitation	3,300	---	---	---	---
Unused balance of limitation	-1,281	---	---	---	---
Exempt from limitation	---	3,300	3,455	2,650	2,650
Gross loan guarantee commitments	2,019	3,300	3,455	2,650	2,650
Net Direct Lending					
On-budget	393	a/	a/	-80	-140
Off-budget	142	a/	a/	248	280
Total	535	a/	a/	168	140
Cumulative Outstanding					
Direct loans	3,096	a/	a/	3,016	2,875
Loan guarantees	9,947	a/	a/	9,997	9,607
FFB	825	a/	a/	1,073	1,353

a/ Not estimated.

last year so that the credit budget would more accurately reflect the full impact of federal credit on the economy.

SBA's contingent liability for guaranteed loans is 90 percent, or $3.1 billion of the 1984 commitments estimated by CBO. Loan guarantees are provided for business loans, loans to the handicapped, economic opportunity loans, energy loans, and small company debt. The FFB is expected to finance $430 million of the 1984 guaranteed loans as off-budget direct loans. These FFB loans are made to small business investment and development companies to finance their provision of equity capital for small businesses.

The Administration requested supplemental funding of $178.6 million in 1983 to meet its obligation to purchase defaulted guaranteed loans. This funding is provided by a proposed transfer of funds from the Economic Development Administration and the International Trade Administration to the SBA. In addition, the Administration requested reprogramming of $137 million of direct loan obligations, to be used for restoring solvency to the revolving fund rather than for making new small business loans. The Administration's request as estimated by CBO is $771 million for 1984 new direct loan obligations. Of that amount, $41 million is for lending to minority enterprise, small business investment companies, and $729 million is to cover claims on defaulted guaranteed loans.

Pollution Control Equipment Guarantees

Public Law 94-305 established this fund authorizing SBA to guarantee payments by small businesses to contractors for the design, planning or installation of pollution control facilities. In 1984, the CBO baseline estimate for loan guarantee commitments is $262 million.

The Administration has proposed appropriations language to reduce 1983 loan guarantee commitments from an estimated $250 million to $150 million, and is requesting that amount for 1984 commitments.

National Credit Union Administration

The National Credit Union Administration (NCUA), through its central liquidity facility, provides direct loans to member credit unions to meet seasonal and emergency needs. Its share insurance fund insures members' deposits in federal credit unions. The CBO baseline estimate for new direct loan obligations is $105 million annually from 1984 through 1988 for these two NCUA programs.

FUNCTION 400: TRANSPORTATION

This function includes credit programs of the Department of Transportation that provide financial assistance for highway, rail, air, and sea transportation. The CBO baseline estimate for 1984 direct loan obligations in this function is $115 million, a decrease of $99 million from the estimated 1983 level. The Administration requests $62 million in 1984 direct loan obligations. In 1984, the CBO baseline estimate for loan guarantee commitments is $749 million, a decrease of $298 million from the estimated 1983 level. The Administration's 1984 estimate for loan guarantees is $615 million in new commitments. Table IV-21 summarizes the credit activity in this function.

Federal Highway Administration

Two direct loan programs, the federal aid to highways trust fund and the right-of-way revolving fund, provide assistance to states for highway construction and for right-of-way purchases prior to highway construction. In 1984, CBO's baseline projects that new direct loan obligations for these funds will be $51 million.

Federal Railroad Administration

The CBO baseline estimate for new direct loan obligations for railroad assistance programs is $5 million in 1984, a decrease of $97 million from the 1983 level. New lending for the railroad rehabilitation and improvement financing fund is projected to decrease by $94 million between 1983 and 1984. The Administration proposes appropriations language to eliminate new direct loan obligations for all railroad assistance programs in 1984.

Aircraft Purchase Loan Guarantees

The Federal Aviation Administration is authorized to guarantee 90 percent of principal and 100 percent of interest on loans up to $100 million per carrier for the purchase of aircraft and equipment by private commuter airlines. This authority will terminate on October 24, 1983. The CBO baseline projects $80 million in new loan guarantee commitments for 1983. Assuming reauthorization of the program, new loan guarantee activity is projected at $84 million in 1984, increasing to $99 million in 1988.

The Administration does not propose reauthorization of the aircraft purchase loan guarantee program and is not requesting any new commitments in 1984.

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TABLE IV-21. TRANSPORTATION CREDIT PROGRAM BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Federal Highway Administration	69	50	51	52	53	54	55
Federal Railroad Administration	44	102	5	5	6	6	6
Federal Railroad Administration, FFB purchase of agency-guaranteed direct loans	16	31	33	34	36	37	39
Maritime Administration federal ship financing fund	24	25	26	27	29	30	31
Other	---	6	---	---	---	---	---
Total	154	214	115	119	123	127	131
Loan Guarantee Commitments							
Federal Railroad Administration	42	48	47	49	36	37	39
Aircraft purchase loan guarantee program	20	80	84	88	92	96	99
Maritime Administration federal ship financing fund	637	950	650	400	200	200	200
Total, gross	698	1,078	781	537	328	333	338
Less Guarantees of direct loans sold to the FFB	-16	-31	-33	-34	-36	-37	-39
New Primary Guarantees	682	1,047	749	503	292	296	299

Maritime Administration, Federal Ship Financing Fund

Under Title XI of the Merchant Marine Act of 1936, as amended, the Maritime Administration (MarAd) is authorized to guarantee construction mortgage loans to build U.S.-flag vessels in the United States. It also makes direct loans in the form of advances to operators of vessels built under Title XI guarantees to forestall possible defaults and to satisfy claims on defaulted loans.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established a commitment limitation ceiling of $9.5 billion on the volume of MarAd guarantees for this program. The CBO baseline estimates $950 million in guaranteed loan commitments for 1983, $650 million for 1984, and $400 million in 1985. CBO assumes the program will reach its total commitment ceiling in 1985 with $200 million in new loan guarantees and that the remaining $200 million will be financed from loan repayments. Commitments will be restricted to repayments from 1986 to 1988 at a level of $200 million annually, and will enable MarAd to make guaranteed loans without new commitment authority.

The Administration has proposed new appropriations language that requests a limitation on commitments of $900 million in 1984. Of that amount, $300 million will be used only if needed in the interest of national security. The Administration also proposes loan guarantee commitment limitations of $900 million annually from 1985 through 1988, estimating that $600 million in guaranteed loans will be made each year. Table IV-22 shows detailed credit activity for the federal ship financing fund.

TABLE IV-22. MARITIME ADMINISTRATION, FEDERAL SHIP FINANCING FUND (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates		President's Budget as Estimated by CBO	
		1983	1984	1983	1984
Direct Loan Obligations					
Exempt from limitation	24	25	26	25	25
Entitlements and other mandatory programs	24	25	26	25	25
Total, gross direct loan obligations	24	25	26	25	25
Loan Guarantee Commitments					
Limitation	675	---	--	---	900
Unused balance of limitation	-38	---	---	---	-300
Exempt from limitation	---	950	650	600	---
Gross loan guarantee commitments	637	950	650	600	600
Net Direct Lending					
On-budget	12	19	20	19	20
Cumulative Outstanding					
Direct loans	158	177	198	177	198
Loan guarantees	7,176	7,301	7,426	7,301	7,426

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

This function contains credit assistance for community development in the Department of Housing and Urban Development (HUD), area and regional development in the Departments of Commerce and Agriculture, disaster loans of the Small Business Administration (SBA), and assistance to Indian tribes in the Department of the Interior. For 1984, the CBO baseline projects $2.2 billion in new direct loan obligations, an increase of $0.6 billion from 1983. New loan guarantee commitments are projected to be $509 million in 1984. Table IV-23 summarizes the credit activity in this function for 1982 through 1988.

The Administration's request as estimated by CBO for new direct loan obligations is $1.0 billion in 1984. For 1984 loan guarantee commitments the Administration requests $19 million. Table VI-24 shows the Administration's proposed changes from CBO's baseline for credit programs in 1984-1988.

Under the CBO baseline, $1.6 billion of the 1984 loan guarantee commitments will be used to guarantee loan asset sales by the Rural Development Insurance Fund (RDIF) to the Federal Financing Bank.

Small Business Administration Disaster Assistance

The Small Business Administration makes direct loans to assist small businesses and property owners to recover from natural disasters under Section 7(b) of the Small Business Act, as amended.

The CBO baseline projects new direct loan obligations of $603 million in 1983, increasing to $1.1 billion in 1984 and $1.3 billion by 1988. The increase in 1984 and beyond reflects the expiration of legislation prohibiting farmers from borrowing from SBA for business-related disaster losses. The Administration's request as estimated by CBO assumes continuation of the farmers' exclusion provisions, and estimates new direct loan obligations of $440 million in 1983 and 1984, rising to $745 million by 1988. The Administration proposes an appropriation limitation on disaster lending in 1984 as it did in 1983, reflecting its belief that federal disaster relief should supplement state and individual assistance rather than be unlimited. The Congress did not enact a limitation on this program in 1983. Table IV-25 shows detailed lending activity for disaster loans for 1982-1984.

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TABLE IV-23. COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAM BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Community development grants, FFB purchase of agency-guaranteed direct loans	179	225	236	247	258	268	278
Rural Development Insurance Fund (RDIF) a/	569	518	539	610	590	606	873
RDIF, FFB purchase of loan assets	1,535	1,191	1,646	1,142	450	384	619
Rural Telephone Bank	185	185	193	203	212	220	229
Small Business Administration disaster loan fund	237	603	1,110	1,163	1,214	1,263	1,311
Other	69	107	104	109	114	118	123
Total, gross	2,774	2,829	3,828	3,473	2,837	2,859	3,433
Less Sales of loan assets to the FFB	-1,535	-1,191	-1,646	-1,142	-450	-384	-619
Total	1,239	1,638	2,182	2,331	2,387	2,476	2,814

(Continued)

Table IV-23. (Continued)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Loan Guarantee Commitments							
Community development grants	179	225	236	247	258	268	278
Rural Development Insurance Fund	1,674	1,491	1,960	1,471	793	741	990
Economic Development Revolving Fund	14	170	178	186	194	202	210
Other	33	21	17	17	18	19	20
Total, gross	1,900	1,907	2,390	1,921	1,263	1,229	1,498
Less Guarantees of direct loans sold to the FFB	-1,714	-1,416	-1,881	-1,452	-877	-874	-1,151
New primary guarantees	186	491	509	470	385	355	347

a/ RDIF direct loan obligations are shown net of FmHA's repurchases of loan assets from the FFB.

TABLE IV-24. PROPOSED CHANGES IN COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAMS, (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Baseline Direct Loans	2.2	2.3	2.4	2.5	2.8	
Proposed changes						
RDIF	-0.2	-0.2	-0.2	-0.3	-0.3	-1.2
RDIF FFB loan assets	*	-0.1	-0.2	-0.2	-0.2	-0.7
SBA Disaster loans	-0.7	-0.5	-0.5	-0.5	-0.6	-2.8
Community development grants, FFB purchases of agency-guaranteed loans	-0.2	-0.2	-0.3	-0.3	-0.3	-1.3
Other	-0.1	---	---	0.1	---	---
Total changes	-1.2	-1.0	-1.2	-1.2	-1.3	-5.9
President's budget as estimated by CBO	1.0	1.3	1.3	1.3	1.5	
Baseline Loan Guarantees	0.5	0.5	0.4	0.4	0.3	
Proposed changes						
RDIF	-0.3	-0.3	-0.2	-0.1	-0.1	-1.0
Economic Development Revolving Fund	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0
Community development grants	-0.2	-0.2	-0.3	-0.3	-0.3	-1.3
Community development grants, guarantees of direct loans	0.2	0.2	0.3	0.3	0.3	1.3
Total changes	-0.5	-0.5	-0.4	-0.3	-0.3	-2.0
President's budget as estimated by CBO	*	*	*	*	*	

* Less than $50 million.

TABLE IV-25. SMALL BUSINESS ADMINISTRATION, DISASTER LOANS
(By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates		Administration Request as Estimated by CBO	
		1983	1984	1983	1984
Direct Loan Obligations					
Limitation	---	---	---	---	440
Exempt from limitation					
Entitlements and other mandatory programs	237	603	1,110	440	---
Total, gross direct loan obligations	237	603	1,110	440	440
Loan Guarantee Commitments					
Exempt from limitation	6	---	---	---	---
Net Direct Lending					
On-budget	-371	-63	333	-332	-274
Cumulative Outstanding					
Direct loans	6,073	6,010	6,196	5,741	5,467
Loan guarantees	11	---	---	8	5

Rural Development Insurance Fund

The Farmers Home Administration makes loans for water systems, waste disposal facilities, community facilities, industrial development, and alcohol fuel production facilities through the Rural Development Insurance Fund (RDIF).

TABLE IV-26. RURAL DEVELOPMENT INSURANCE FUND (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates		Administration Request as Estimated by CBO	
		1983	1984	1983	1984
Direct Loan Obligations					
Limitation	505	505	529	505	350
Unused balance of limitation	-4	---	---	---	---
Exempt from limitation					
Repurchases from the FFB	475	505	980	505	980
Repurchases from private investors	67	13	10	13	10
Total, on-budget direct loan obligations	1,043	1,023	1,519	1,023	1,340
FFB transactions					
Loan asset purchases	1,535	1,191	1,646	1,191	1,644
Total, gross direct loan obligations	2,578	2,214	3,165	2,214	2,984
Loan Guarantee Commitments					
Limitation	611	300	314	300	---
Unused balance of limitation	-472	---	---	---	---
Exempt from limitation	1,535	1,191	1,646	1,191	1,644
Gross loan guarantee commitments	1,674	1,491	1,960	1,491	1,644
Net Direct Lending					
On-budget	-132	21	-108	21	-108
Off-budget	1,060	686	675	686	664
Total	928	707	567	707	556
Cumulative Outstanding					
Direct loans	153	173	153	173	65
Loan guarantees	9,790	10,415	11,107	10,415	10,805
FFB	6,403	7,089	7,756	7,089	7,753

For 1984, the CBO baseline projects a limitation of $529 million on new direct loan obligations. In addition, $990 million in direct loan obligations are projected for the repurchase of publicly held loans and maturing certificates of beneficial ownership from the FFB. The CBO revised baseline projection for 1984 loan guarantee commitments is $2.0 billion, declining to $990 million by 1988. CBO estimates that $0.3 billion of the 1984 commitments represent new lending, while the remainder are used to guarantee loan assets sold to the FFB. Table IV-26 shows detailed 1982-1984 credit activity for RDIF.

The Administration's request as estimated by CBO consists of a limitation on 1984 new direct loan obligations of $350 million and $990 million for loan repurchases. For 1984 loan guarantee commitments, the Administration requests $1.6 billion, declining to $428 million by 1988. All of the Administration's request represents guarantees of loan asset sales to the FFB. The Administration requests no new loan guarantees for the industrial development and alcohol fuel production facilities programs in 1984.

Community Development Loan Guarantees

Section 108 of the Housing and Community Development Act of 1974, as amended, provided that the Secretary of HUD may guarantee debt certificates issued by community development block grant (CDBG) recipients. A guarantee may be up to three times the amount of the CDBG award, assisting recipients in financing acquisition of real property and in rehabilitating public property.

The CBO baseline projects new loan guarantee commitments of $236 million in 1984. All of the guaranteed loans are financed through the FFB as off-budget direct loans. The Congress has rejected previous Administration attempts to reduce or eliminate this program significantly. For 1984, the Administration requests no new CDBG loan guarantee commitments.

Rural Telephone Bank

The Rural Telephone Bank (RTB) is an off-budget entity that was established in 1971 by Public Law 92-12 to provide a supplemental source of financing for the Rural Electrification Administration's telephone program. The RTB makes direct loans, charging an interest rate based on its average cost of money. On loans through September 30, 1982, the weighted average interest rate was 7.9 percent. During the first quarter of 1983, loans were

made at 11.5 percent interest. To date, loans have been made by the RTB to 496 borrowers totaling $1.7 billion.

The CBO baseline estimates for RTB new direct loan obligations are $193 million in 1984, increasing to $229 million by 1988.

Economic Development Administration

The Economic Development Administration (EDA) provides guaranteed loans to encourage private credit and investment in economically distressed areas. In 1978, a program of loan guarantees to assist steel companies was established. The CBO baseline projects $178 million in new loan guarantee commitments for 1984. No new direct loan obligations are estimated after 1982.

The Administration proposes to discontinue all EDA programs as soon as possible. It also proposes to transfer balances from the Economic Development Administration programs account to both the Economic Development Revolving Fund and the Small Business Administration to cover default claims and to meet Treasury interest payments. No new lending activity is estimated by the Administration for EDA programs in 1983 or 1984.

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Credit programs in this function consist primarily of direct loans and loan guarantees to assist students and their families in financing college educations. In addition, there are loans to colleges and other academic institutions to finance construction of facilities. The CBO baseline estimate for total direct loan obligations is $654 million in 1984, increasing to $880 million by 1988. The baseline projects total loan guarantee commitments of $6.6 billion annually from 1984 through 1988. Table IV-27 summarizes the credit activity in this function.

The Administration's budget as estimated by CBO requests $424 million in 1984 new direct loan obligations, increasing to $600 million in 1988. New loan guarantee commitments are estimated to be $5.6 billion in 1984, increasing to $5.7 billion by 1988. Table IV-28 shows the Administration's proposed changes to the CBO baseline for 1984-1988.

Student Financial Assistance

National direct student loans (NDSLs) are low-interest loans to assist financially needy students in pursuing postsecondary education at eligible institutions. The federal government makes loans in the form of annual capital contributions to revolving funds at higher education institutions. Colleges then use loan repayments and the new federal capital to make new loans, rather than repaying the federal government. The CBO baseline projects $188 million in 1984 new direct loan obligations. The Administration does not request any new direct loan obligations in 1984 for NDSLs since previous payments accumulated in the revolving funds can be used to make approximately 688,000 loans at an average of $800 each for the 1984-1985 school year. CBO estimates that the proposed elimination of new direct loan obligations will result in a decrease of 200,000 loans. As part of an effort to intensify loan collections, the Administration also proposes appropriation language for 1983 to allow private debt collection agencies to offset their costs with collected loan funds.

Guaranteed Student Loans

The guaranteed student loan program is designed to promote the availability of commercial and other loans to students and their parents to help pay education costs. This is accomplished through the provision of federal insurance and reinsurance against borrower default and through subsidy payments. The CBO baseline estimate for new loan guarantee commitments is $6.6 billion in 1984. Direct loan obligations used to pay

TABLE IV-27. EDUCATION ACTIVITIES CREDIT PROGRAM BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Student financial assistance	175	179	188	198	209	220	231
Guaranteed student loans	289	391	424	500	550	600	600
Guarantees of SLMA obligations, FFB purchases of agency-guaranteed loans	700	---	---	---	---	---	---
College housing	40	40	42	44	46	48	49
Total	1,204	610	654	742	804	867	880
Loan Guarantee Commitments							
Guaranteed student loans	6,195	6,500	6,650	6,650	6,650	6,650	6,650
Guarantees of SLMA obligations	700	---	---	---	---	---	---
Total gross	6,895	6,500	6,650	6,650	6,650	6,650	6,650
Less Guarantees of direct loans sold to the FFB	-700	---	---	---	---	---	---
New primary guarantees	6,195	6,500	6,650	6,650	6,650	6,650	6,650

claims on defaulted guaranteed student loans are estimated to be $424 million in 1984. Table IV-29 shows detailed credit activity for guaranteed student loans.

TABLE IV-28. PROPOSED CHANGES IN EDUCATION CREDIT PROGRAMS (By fiscal year, in billions)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Baseline Direct Loans	0.7	0.7	0.8	0.9	0.9	
Proposed changes						
Student financial assistance	-0.2	-0.2	-0.3	-0.3	-0.3	-1.3
President's budget as estimated by CBO	0.4	0.5	0.6	0.6	0.6	
Baseline Loan Guarantees	6.6	6.6	6.6	6.6	6.6	
Proposed changes						
Guaranteed Student Loans	-1.0	-1.0	-1.0	-0.9	-0.9	-4.8
President's budget as estimated by CBO	5.6	5.6	5.7	5.7	5.7	

The Administration proposes two significant changes from current law for the guaranteed student loan program. First, all applicants would be subject to a needs analysis. Currently, only those with family incomes of over $30,000 are required to undergo a needs analysis. Second, the origination fee for graduate and professional student loans would increase from 5 to 10 percent.

The Administration's request for 1984 loan guarantee commitments as estimated by CBO is $5.6 billion. CBO estimates that the volume of

guaranteed student loans will decline by about $1.0 billion annually in 1984-1988 as a result of the proposal to broaden the needs analysis requirement

TABLE IV-29. GUARANTEED STUDENT LOANS (By fiscal year, in millions of dollars)

	1982	CBO Baseline Estimates		President's Budget as Estimated by CBO	
	Actual	1983	1984	1983	1984
Direct Loan Obligations					
Exempt from limitation					
Defaults	289	391	424	391	424
Loan Guarantee Commitments					
Exempt from limitation	6,195	6,500	6,650	6,000	5,625
Net Direct Lending					
On-budget	162	335	230	335	230
Cumulative Outstanding					
Direct loans	1,525	1,860	2,090	1,860	2,090
Loan guarantees	22,700	27,300	30,700	25,600	27,900

and to limit eligibility solely to financial need. Under current needs analysis requirements, more than 700,000 students would experience either reduced borrowing eligibility or would be ineligible to receive loans. The Administration's assumption of a July 1983 implementation date for its proposals is reflected in CBO's estimate of 1983 loan guarantee commitments.

Guarantees of SLMA Obligations

No new loan guarantee commitments are proposed for Student Loan Marketing Association (SLMA) obligations in 1983 or 1984. Previously, the Department of Education guaranteed SLMA's borrowing from the Federal Financing Bank to finance its activities. As part of a policy to promote private rather than government financing of SLMA obligations, 1982 was the last year that SLMA financed its activities through the FFB.

College Housing Loans

Title IV of the Housing Act of 1950 authorized loans at 3 percent interest rates to colleges and eligible hospitals for the construction and acquisition of housing facilities. The CBO baseline projects $42 million in new direct loan obligations for 1984, increasing to $49 million by 1988.

The Administration is proposing supplemental language to override the legislative requirement that new college housing loans be made in 1983. If enacted, this would result in a reduction of $40 million in estimated 1983 new direct loan obligations. The Administration requests no 1984 new direct loan obligations for this program.

FUNCTION 550: HEALTH

Credit assistance in the health function includes loans and loan guarantees for health services, health maintenance organizations, and the education and training of health care professionals. Table IV-30 summarizes new direct loan obligations and new primary loan guarantee commitments in this function.

For 1984, CBO's baseline projects a total of $29 million in new direct loan obligations, increasing to $33 million in 1988. CBO projects a total of $256 million in new primary loan guarantee commitments in 1984, $75 million above the Administration estimate. The major difference is in the health professions graduate student loan insurance program. Total new loan guarantee commitments are projected to increase to $308 million by 1988.

Health Maintenance Organizations (HMOs)

The Public Health Service Act authorizes financial assistance to HMOs in the form of grants, contracts, loans, and loan guarantees for planning, development, acquisition, and construction of ambulatory health care facilities. Both the direct and guaranteed loans have a 20-year maturity and bear interest at 12 percent. The CBO baseline projection is $26 million for new direct loan obligations and for new loan guarantee commitments.

Direct loans are financed through a revolving fund. As new loans are made they are sold to the Federal Financing Bank as loan assets to provide funds for additional loans. All the loan sales are fully guaranteed. CBO projects asset sales of $6 million in 1984.

Health Professions Graduate Student Loans

Under Title VII of the Public Health Service Act, the health professions graduate student loan insurance fund enables students to borrow from private lenders to finance their medical training. The government fully insures the principal amount of the loans. The loans have a ten-year maturity and an interest rate of 12 percent. The CBO baseline projection for new loan guarantee commitments is $236 million in 1984, $61 million above the Administration's request of $175 million.

TABLE IV-30. HEALTH CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Health maintenance organizations	14	42	26	27	28	29	30
Health maintenance organizations, FFB purchases of loan assets	17	16	6	5	1	---	---
Other	13	4	3	3	3	3	3
Total, gross	44	62	35	35	32	32	33
Less FFB loan asset sales	-17	-16	-6	-5	-1	---	---
Total	27	46	29	30	31	32	33
Loan Guarantee Commitments							
Health maintenance organizations	17	24	26	27	28	29	30
Health professions graduate student loan insurance	200	225	236	247	258	268	278
Total, gross	217	249	262	274	286	287	308
Less Guarantees of direct loans sold to the FFB	-17	-16	-6	-5	-1	---	---
Total	200	233	256	269	285	297	308

FUNCTION 600: INCOME SECURITY

Credit assistance in the income security function is primarily for housing. Local public housing authorities (PHAs) are assisted in the construction of low-rent public housing, and interest-free direct loans are provided to nonprofit organizations planning to build subsidized housing for low-income, elderly, and handicapped tenants. The Pension Benefit Guaranty Corporation also administers direct loan assistance to prevent the loss of pension benefits to participants if pension plans are terminated or otherwise unable to pay insured benefits. Table IV-31 illustrates the lending activity in this function, which is almost entirely in the low-rent public housing program.

Low-rent Public Housing

This program provides three stages of federal credit assistance for the construction, acquisition, or modernization of public housing projects owned by PHAs. First, direct loans are made to finance the early costs of project development or modernization. The CBO baseline projects $1.0 billion in new direct loan obligations for 1983 and 1984.

At a second stage, when the direct loans accumulate to an amount that is attractive to private investors, PHAs sell short-term tax-exempt notes to the public. The notes are used to repay the federal direct loans and to raise additional construction funds. The government effectively guarantees these notes with pledges to issue direct loans if the PHA is unable to refinance them. These notes are used to finance the construction of housing projects and comprise the largest volume of lending activity in the low-rent public housing program. The CBO baseline projects $14.7 billion in new loan guarantee commitments for 1984, increasing to $18.5 billion by 1988. Since the short-term notes are refinanced at least once a year, the loan guarantee commitments overstate the net volume of lending. They do, however, reflect the total new activity. Detailed credit activity for this program is presented in Table IV-32.

The third stage of federal assistance involves permanent financing of completed or nearly completed projects. Before 1974, completed projects were permanently financed for up to 40 years with long-term tax-exempt bonds sold to the public. Between 1974 and 1979, short-term tax-exempt notes were sold to the public. In 1980, PHAs began selling long-term bonds to the FFB for permanent project financing after construction was completed. The government pledges to make full principal and interest payments on the bonds through annual contributions contracts.

TABLE IV-31. INCOME SECURITY CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Low-rent public housing	905	1,000	1,000	750	500	250	100
Other income security programs	1	2	2	2	3	3	3
Total	906	1,002	1,002	752	503	253	103
Loan Guarantee Commitments							
New primary guarantees for low-rent public housing	13,284	14,637	14,709	16,493	18,146	18,474	18,502

Beginning in 1983, the Administration requests no further FFB financing for long-term PHA bonds. Instead, through an administrative proposal the Administration requests that the Department of Housing and Urban Development sell taxable bonds to the public to permanently finance public housing projects.

TABLE IV-32. LOW-RENT PUBLIC HOUSING (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates		President's Budget as Estimated by CBO	
		1983	1984	1983	1984
Direct Loan Obligations					
Exempt from limitation					
Entitlements and other mandatory programs	905	1,000	1,000	1,000	1,000
Loan Guarantee Commitments					
Exempt from limitation	13,284	14,637	14,709	14,637	14,709
Net Direct Lending					
On-budget	-22	---	---	---	---
Off-budget	696	592	-37	592	-37
Total	675	592	-37	592	-37
Cumulative Outstanding					
Direct loans	162	162	162	162	162
Loan guarantees	20,770	22,989	24,867	22,989	24,867
FFB	1,624	2,216	2,179	2,216	2,179

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

Credit assistance to veterans includes direct loans in the form of borrowing against the cash value of life insurance policies and for educational purposes, and loans and guarantees to purchase homes. The CBO baseline projection for new direct loan obligations is $0.8 billion in 1984. For new loan guarantee commitments, CBO projects $9.0 billion, $11.9 billion below the Administration request for 1984. The difference lies entirely in the Veterans Administration loan guaranty revolving fund. The Administration is not requesting limitations on any of these programs because they are considered assistance to which veterans are entitled. Table IV-33 summarizes the new direct loan obligations and new primary loan guarantee commitments in this function.

Insurance Benefits

Veterans and their survivors may borrow against the cash value of life insurance policies issued by the federal government under the following programs: the Service-Disabled Veterans' Insurance program, the Veterans' Reopened Insurance program, the U.S. Government Life Insurance program, and the Veterans' Special Life Insurance program. For 1984, CBO's baseline projection is $163 million for new direct loan obligations.

Education Loans

Certain veterans may borrow up to $2,500 per academic year for educational expenses directly from the Veterans' Education Loan Fund. No interest rate is charged on these loans nor is repayment required as long as the veteran is training at least half-time. When training is completed, the loans carry an interest rate of 11 percent and have a maturity of ten years. Repayments on previous loans are returned to the fund and used to make new loans. The Omnibus Reconciliation Act of 1981 restricted entitlements for these loans to certain small categories of veterans, as of October 1, 1981. In 1982, 1,400 new loans were made at an average of $481 per loan. In 1983 and 1984, the Administration estimates that 190 and 165 new loans, respectively, will be made at an average of approximately $1,000 per loan. Veterans may also receive loans up to $564 to pay expenses while taking vocational rehabilitation training courses. These loans are interest free and are repaid over a period of ten months. New loans are made as previous loans are repaid. Both CBO and the Administration estimate a total of $1.2 million in new direct loan obligations for these programs.

TABLE IV-33. VETERANS' CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
Insurance programs	152	156	163	166	168	166	163
Education programs	2	1	1	1	1	1	1
Housing programs	720	808	627	472	572	612	727
Total	874	965	791	639	681	779	891
Loan Guarantee Commitments							
Housing programs	5,983	8,010	9,000	10,500	12,500	15,000	17,000

Housing Credit

The primary form of credit assistance to veterans is guarantees of loans made by private lenders for the purchase or construction of homes. The CBO baseline projection for new loan guarantees in 1984 is $9.0 billion, a 12.5 percent increase over the 1983 base, that is 50 percent higher than the 1982 actual level. CBO has reestimated the President's estimate to this level. The Administration originally proposed a 212 percent increase in 1983 over 1982 to $18.6 billion and a further increase to $19.9 billion in 1984. This difference was due in part to the expectation by the Administration of a huge surge in lending activity as the housing industry recovers from its depressed 1982 level. The Administration's 1983 estimate of $18.6 billion in guarantees was nearly 60 percent higher than the highest level of activity experienced in this program to date. While CBO's projection also assumes a recovery in the housing industry, the magnitude of the recovery in fiscal year 1983 is not expected to be as dramatic.

The CBO baseline estimate also differs from the Administration's in the manner in which direct loan obligations are calculated. CBO's direct loan estimate includes vendee loans resulting from the sale of property, and excludes real property acquisitions and property improvement cost related to these acquisitions. Under CBO's definition, Administration estimates for VA direct loan obligations for housing are reduced by $0.6 billion from 1983-1988. The Administration anticipates that the lower volume of loans in 1982 will result in lower default claims in the next few years. Defaults of guaranteed loans are estimated at $796 million in 1983 and $615 million in 1984. Table IV-34 highlights the activity of the veterans' loan guarantee revolving fund.

The Veterans Administration is also authorized to make direct loans to severely disabled veterans for specially adapted housing. The CBO baseline projection for new direct loans for this program is $2.0 million in 1984. New loan guarantee commitments are only anticipated in 1983, when $10.4 million in guarantees are estimated to be sold.

TABLE IV-34. VETERANS' LOAN GUARANTEE REVOLVING FUND (By fiscal year, in millions of dollars)

	1982 Actual	CBO Baseline Estimates 1983	CBO Baseline Estimates 1984	Administration's January Estimates 1983	Administration's January Estimates 1984
Direct Loan Obligations					
Exempt from limitation					
Defaults	709 a/	796	615	679	709
Entitlements and other mandatory programs	9	10	10	10	10
Total, gross direct loan obligations	719	806	625	689	719
Loan Guarantee Commitments					
Exempt from limitation	5,983	8,000	9,000	18,637	19,875
Net Direct Lending					
On-budget b/	251	c/	c/	-390	259
Cumulative Outstanding					
Direct loans b/	1,906	c/	c/	1,516	1,774
Loan guarantees	108,784	c/	c/	125,858	144,172

a/ The 1982 actuals are based on the Administration's definition of defaults. CBO estimates $420 million in defaults in 1982. See page 104 for an explanation.

b/ Includes Direct Loan Revolving Fund outlays and outstanding.

c/ Not estimated.

FUNCTION 800: GENERAL GOVERNMENT

Neither the CBO baseline nor the Administration project any new loan guarantee commitments in 1983 or 1984. The function previously contained two loan guarantee programs: loans to the U.S. territories of Guam and the Virgin Islands, and General Services Administration (GSA) loans for lease-purchase agreements on some federal buildings. The loan guarantees have been financed through the Federal Financing Bank as off-budget direct loans. In 1982, $12 million in new loan guarantees were committed for the GSA program.

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

Credit assistance in function 850 consists of direct loans to the District of Columbia for capital projects and short-term general borrowing. Table IV-35 summarizes the estimated activity level for these two programs.

TABLE IV-35. GENERAL PURPOSE CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1982 Actual	CBO Baseline Estimates 1983	1984	1985	1986	1987	1988
Direct Loan Obligations							
District of Columbia capital projects	145	121	151	160	168	175	182
Repayable advances to District of Columbia general fund	140	150	158	166	174	181	189
Total	285	271	309	326	342	356	371

The U.S. Treasury makes direct loans to the District of Columbia for capital projects. In 1984, CBO's baseline projection for the program is $151 million, to be used for projects from the general fund and water and sewer enterprise fund. From 1985 through 1988, the program is projected to increase steadily to $182 million.

Temporary advances have been made by the U.S. Treasury to the District of Columbia to meet short-term cash requirements resulting from variation in the rate of disbursements and tax collection during the year. The CBO baseline projection for new direct loans in this program in 1984 is $158 million. From 1985 through 1988, the program is projected to increase steadily to $189 million. The Administration is not planning to make new or future loans for the program since it anticipates that future borrowing will be done in the private market. In each year, repayments are made in the full amount of that year's loan.